



**ZENITH ENERGY LTD.**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2021**

## **CONTENTS**

<b>3</b>	<b>COMPANY INFORMATION</b>
<b>5</b>	<b>CHAIRMAN'S STATEMENT</b>
<b>8</b>	<b>CEO STATEMENT</b>
<b>10</b>	<b>BOARD OF DIRECTORS AND SENIOR MANAGEMENT</b>
<b>12</b>	<b>DIRECTORS' REPORT</b>
<b>21</b>	<b>GOVERNANCE REPORT</b>
<b>27</b>	<b>INDEPENDENT AUDITOR'S REPORT</b>
<b>34</b>	<b>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</b>
<b>35</b>	<b>CONSOLIDATED STATEMENTS OF FINANCIAL POSITION</b>
<b>36</b>	<b>CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY</b>
<b>37</b>	<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>
<b>38</b>	<b>NOTES TO THE FINANCIAL STATEMENTS</b>

## **COMPANY INFORMATION**

### **Directors**

Dr. Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)  
Andrea Cattaneo (Chief Executive Officer & President, Executive Director)  
Luca Benedetto (Chief Financial Officer & Executive Director)  
Dario Ezio Sodero (Non-Executive Director)  
Sergey Borovskiy (Non-Executive Director)

### **Registered Office**

20th Floor, 250 Howe Street  
Vancouver, BC V6C 3R8, Canada

### **Head Office**

15th Floor, Bankers Court  
850 – 2nd Street S.W., Calgary, Alberta, T2P 0R8 Canada  
Telephone Number: +1 (587) 315 9031

### **Registered Corporation Number**

BC0803216

### **Website**

[www.zenithenergy.ca](http://www.zenithenergy.ca)

### **Corporate Broker**

Allenby Capital Limited  
5 St. Helen's Place  
London  
EC3A 6AB, United Kingdom

### **Independent Auditor**

Jeffreys Henry LLP  
Finsgate 5-7 Cranwood Street  
London EC1V 9EE

### **Principal Bankers**

Barclays Bank PLC  
1 Churchill Place  
Canary Wharf  
London  
E14 5HP, United Kingdom

**COMPANY INFORMATION (CONTINUED)**

**Competent Person**

Chapman Petroleum Engineering Ltd  
1122 4th Street S.W., Suite 700  
Calgary Alberta T2R 1M1, Canada

**Depository and Registrar**

Computershare Trust Company of Canada  
100 University Avenue, 8th Floor  
Toronto, ON M5J 2Y1, Canada

Computershare Investor Services Plc  
The Pavilions Bridgwater Road  
Bristol, BS99 6ZZ, United Kingdom

## **CHAIRMAN'S STATEMENT**

The 2021 financial year has been a significant year of progress for the Group with a growing establishment of its oil and gas production operations in Africa, specifically in Tunisia with the acquisition of a material working interest in the Ezzaouia concession, as well as the pending conditional purchase of a similar working interest in the Sidi El Kilani concession. These assets constitute two of the most important oilfields in the Republic of Tunisia and still hold sizeable untapped reserves to be produced.

The Group has continued to implement its African development strategy, focused on the acquisition of prospective oil and gas production and development assets. The notable decline in oil prices registered during 2020 because of the COVID-19 pandemic has had a positive impact on the Group's ability to negotiate favourable commercial terms for the acquisition of new assets.

The Board is fully confident in its belief that the Group's expansion will, if successfully executed, enable Zenith to create substantial value for all its stakeholders.

### ***Activities in Tunisia***

The Group has fully completed the acquisition of a working interest in the producing Ezzaouia, El Bibane and Robbana concessions.

The steadily increasing price of oil prices during 2020 has greatly improved the economics of the Group's Tunisian assets since their respective acquisitions, providing clear evidence of the Group's success in identifying and completing value accretive asset acquisitions.

The Group was very pleased to announce on July 8, 2021, that it had agreed an international crude oil lifting for an amount of approximately 68,000 barrels net to Zenith for total receivables of approximately US\$4.5M from its recently acquired production and development portfolio.

In view of the high oil price climate, Zenith wishes to accelerate its field rehabilitation and drilling activities to maximize oil production revenue. As a result, on August 19, 2021, the Group announced the imminent mobilization of a drilling rig to the Robbana concession to perform the workover of the Robbana-1 well. The goal is to achieve a tenfold increase in production from the Robbana concession to a target production rate of approximately 250 bopd.

The Group's general production goal from its Tunisia onshore portfolio is to achieve a rate of production of approximately 1,000 bopd, current net production stands (including conditional SLK production) at a rate of approximately 650 bopd. The Board views this to be achievable during the next 6 to 8 months if the Group's workover and drilling activities are successful, and if a favourable opinion is received from the Tunisian *Comité Consultatif des Hydrocarbures*.

### ***Activities in the Republic of the Congo***

The Group completed the 100% acquisition of Anglo African Oil & Gas Congo S.A.U. ("**AAOG Congo**") on May 5, 2020. AAOG Congo formerly operated the Tilapia I licence until its expiry on July 18, 2020. AAOG Congo holds outstanding receivables from SNPC totaling \$5.7m, payment of this amount is expected in due course.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

Zenith has established a second fully owned Congolese subsidiary, Zenith Energy Congo SA ("Zenith Congo"), at the request of the Ministry of Hydrocarbons of the Republic of the Congo for the purpose of participating in the bid process for the award of a new 25-year licence to operate the Tilapia oilfield ("Tilapia II"). The Company announced that it had submitted a comprehensive commercial and technical offer (the "Offer") for the award of Tilapia II on July 20, 2020.

On December 23, 2020, the Company announced that it had received official confirmation from the Ministry of Hydrocarbons of the Republic of the Congo that Zenith Congo had been selected as the successful bidder for the award of Tilapia II.

The Group is currently engaged in the process of negotiating a new production sharing contract ("PSC") with the Ministry of Hydrocarbons, which will be subject to final legislative approval once negotiations are concluded. The timing of the PSC ratification remains uncertain and cannot be guaranteed at this point.

In the event the Group is successful in being awarded the Tilapia II PSC, Zenith will endeavour to commence drilling activities at the earliest opportunity to achieve potentially highly material production from the Mengo and Djeno formations.

#### **Production activities**

During the financial year ended March 31, 2021, the Group:

- a) The Group generated revenues from oil and natural gas of CAD\$596k (2020 – CAD\$735k)
- b) As of March 31, 2021, inventory consists of CAD\$1,057k (2020 – n/a) of crude oil that has been produced but not yet sold in Tunisia.
- c) The Company sold 12,713 mcf of natural gas from its Italian assets, as compared to 17,666 mcf of natural gas in the 2020 similar period.

#### **Financing**

The Company issued equity during the course of the financial year ended March 31, 2021, raising a combined net total of CAD\$10.4m (March 31, 2020 - CAD\$11.5m) to finance the Group's development strategy in Africa.

During the year, 586,816,410 new common shares were issued, as detailed in the financial statements (note 16).

To fund the acquisition of assets, and their development, to avoid an excessive dilution of its share capital the Company issued unsecured, multi-currency (GBP, Euro, CHF and USD) Euro Medium Term Notes, governed by Austrian law, at par value (the "Notes"):

As of March 31, 2021, the Company sold Notes for a total of CAD\$ 3,155,498 (March 31, 2020 – CAD\$ 3,979,191).

#### **Financial Results**

The Group recorded an after-tax profit of CAD\$3,525k for the year ended March 31, 2021, compared to a loss

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

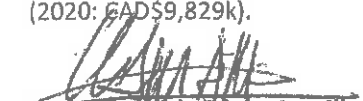
of CAD\$570,309k for the year ended March 31, 2020. This result was brought about by the gain on business acquisition related to the Tunisian assets, negatively impacted by the impairment of the assets in Congo, the loss on retranslation of the assets and non-recurrent administrative expenses related to the negotiation for the acquisitions.

Group production costs for the year were CAD\$1,651k, compared to CAD\$2,364k in 2020.

Finance expense for the year was CAD\$1,451k (2020: CAD\$1,742k expense).

Cash balances of CAD\$1,631k (2020: CAD\$1,220k) were held at the end of the financial year.

Total equity attributable to the ordinary shareholders of the Group was CAD\$23,803k as of March 31, 2021, (2020: CAD\$9,829k).

  
**Dr. José Ramón López-Portillo**  
**Non- Executive Chairman**

**August 27, 2021**

## CEO STATEMENT

Zenith Energy Ltd. (“Zenith” or the “Company”) is an international oil and gas production company pursuing potentially transformational African development opportunities. The Company is listed on the Main Market for listed securities of the London Stock Exchange (ZEN) and the Euronext Growth of the Oslo Stock Exchange (ZENA). The Company has also issued two series of EMTNs listed on the Vienna MTF of the Vienna Stock Exchange.

Zenith’s strategic objective is to become a mid-tier hydrocarbon production and exploration company with a specific focus on assets with proven development potential by way of development drilling, field rehabilitation, and low-risk exploration activities.

As a result of recent macroeconomic developments caused by the COVID-19 pandemic, as well as the progressive decarbonization commitments undertaken by some of the world’s leading energy companies, significant opportunities have emerged for companies such as Zenith to acquire oil and gas production and exploration assets being divested by oil majors. As a management team, we are seeking to fully maximize the opportunity at hand to build a balanced portfolio, comprising revenue generating oil and gas production assets, as well as a selection of low-risk, highly prospective development, and exploration opportunities.

We are very pleased to have acquired a highly prospective presence in Tunisia by way of the acquisition from Candax Energy Limited of its entire working interest in the Ezzaouiua concession, as well as the El Bibane and Robbana concessions.

This is in addition to the two separate conditional acquisitions, signed with CNPC and KUFPEC for their respective working interests of 22.5% in the Sidi El Kilani Concession and the North Kairouan permit in Tunisia. We hope to receive a favourable opinion from the *Comité Consultatif des Hydrocarbures* of the Republic of Tunisia in respect of the transfer of ownership in due course.

Similarly, we remain fully confident and excited regarding our presence in the Republic of the Congo following our acquisition of Anglo African Oil & Gas Congo S.A.U (“AAOG Congo”), the former Congolese subsidiary of Anglo African Oil & Gas plc in May 2020. The decline in oil prices brought about by the COVID-19 pandemic, as well as renegotiations with the seller, enabled Zenith to acquire, at highly advantageous terms, a brief interest in the now expired Tilapia I license (expired on July 18, 2020), as well as receivables of approximately US\$5.7 million dollars owed by SNPC (Société Nationale des Pétroles du Congo).

Since this time, the Company has presented a comprehensive commercial and technical offer (the “Offer”) to the Ministry of Hydrocarbons of the Republic of the Congo to be awarded a new 25-year license for the Tilapia oilfield (to be named Tilapia II). We are confident that we shall be successful in obtaining a new 25-year license and, at the request of the Ministry of Hydrocarbons following submission of the Offer, have established Zenith Energy Congo SA (“Zenith Congo”), a fully owned subsidiary created under the laws of the Republic of the Congo, to be the designated recipient entity of the potential new Tilapia licence.

The results for the year ended March 31, 2021, (“2021 FY”) reflect the significant progress the Group has achieved during the 2021 Financial Year, specifically evidencing our focus on building a well-balanced portfolio of production and development assets in Africa.

We are greatly encouraged by our recent progress in Africa, especially in consideration of our highly material daily production revenue in Tunisia, which we hope to gradually increase by way of workover and drilling activities across the portfolio, as well as the transformational potential represented by the award of a new Tilapia licence.



**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

As always, I am most grateful to our shareholders for their unwavering support and belief in the Company's development activities. The Board and the management team is united in its belief that Zenith is extremely well positioned to deliver potentially transformational value to shareholders if it successfully delivers on its African ambitions.

Sincerely,

A handwritten signature in black ink that reads "Andrea Cattaneo". The signature is written in a cursive style with a large initial 'A'.

**Andrea Cattaneo**  
**Chief Executive Officer**

**August 27, 2021**

## **BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

### **Directors**

#### **Dr. Jose Ramon Lopez-Portillo (*Chairman and Non-Executive Director*)**

Mr. Lopez-Portillo has been managing Director and then Chairman of the Board since 24 September 2007. He is an economist with a large network of business contacts worldwide, and who previously served as Mexican Permanent Representative in Rome, Italy. Mr. Lopez-Portillo is a leading researcher in the energy security of Mexico and acts as Deputy Minister at Mexico's Planning and Budget Secretariat. Mr. Lopez-Portillo holds a Doctorate degree in Political Sciences and International Relations from the University of Oxford.

#### **Andrea Cattaneo (*Director, President and CEO*)**

Mr. Cattaneo has been a Director of the Company since 9 December 2008 and has served as President and CEO of the Group since 2009. He is an energy specialist with a focus on emerging countries and has 30 years' experience in advising governments in financial, industrial, and energy-related matters. Mr. Cattaneo has strong expertise and experience in structuring and negotiating contracts in the international markets, specifically the oil industry. He also has significant experience in former socialist countries and arranged the first US\$ loan to Vietnam, the then third poorest country in the world, towards the beginning of his financial career in 1985. Mr. Cattaneo holds an undergraduate degree in Economics from the University of Genoa and a postgraduate degree in Taxation Law from the University of Bologna. He currently serves as Non-Executive Member of the Anglo-Azerbaijan Society. He is a former member of the Business Advisory Council to the Great Tumen Initiative, a United Nations project for regional economic cooperation in Northeast Asia. He is one of Zenith's founders.

#### **Luca Benedetto (*Chief Financial Officer & Director*)**

Luca Benedetto is an Italian national, trained in Italy as a registered accountant with further education in IFRS accounting and consolidation at IPSOA Milan. He has more than twenty-five years of accounting, auditing, and financial administration experience. Mr. Benedetto began his professional career as an accountant and computer programmer responsible for financial software development and worked for the Italian division of IBM as an internal auditor and accountant as well as providing staff training in these aforementioned fields. He also served for seven years as a financial and administrative officer in a well-established Italian company specialising in the construction of fuel and water storage tanks.

He joined the Zenith Energy Ltd. group in 2013 as Chief Financial Officer of the Group's Italian subsidiary, Canoel Italia S.r.l., and has since progressed to also hold the position of Group Financial Controller. In this capacity he has been directly involved in the monitoring of business performance, cash flow management, budgetary oversight, accounts team supervision, accounts preparation and strategic planning. Since January 2016 he has also been responsible for the compiling and reviewing of the quarterly Consolidated Financial Statements and Management's Discussion and Analysis of the Group.

#### **Dario Ezio Sodero (*Non-Executive Director and Chairman of the Audit Committee*)**

Mr. Sodero was appointed to the Board on 24 June 2009. As an experienced energy industry executive with 47 years of experience in North America, the Sub-Arctic, North Africa and the Middle East, Mr. Sodero has strong geological, exploration and technical expertise. Mr. Sodero has formerly acted as director and executive of several other TSX- and TSXV-listed exploration and production companies. Mr. Sodero holds a Doctorate degree in Geology from the University of Turin, Italy.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

**Sergey Borovskiy (Non-Executive Director)**

Sergey is an accomplished executive with a track record in investment banking, M&A projects, cross-border transactions. Sergey offers over 30 years of China and Hong Kong experience in founding and developing companies in a multilingual and multicultural environment. Fluent in Russian, English and Mandarin.

Since 1993 Chairman of SCHI Group, International trading, investment and manufacturing holding.

Since 2002 Board Member of National Agency for Direct Investment (NAPI).

2017 - 2019 CEO of Sanju Environmental Protection (Hong Kong) Limited, overseeing all international projects of Sanju Group.

2017 - 2018 Executive Director at Jutal Offshore Oil Services (public HK company).

Since 2017 Non-executive Director at Zenith Energy Ltd.

Since 2020 VP of Kaisun Holdings (public HK investment holding).

Since 2021 Head of ITI Capital Asia, an international investment company offering a variety of investment services, capital market opportunities, including pre-IPO investment and complex financial products.

Sergey studied in both China and Russia, holds a degree in economics and Executive MBA.

## DIRECTORS' REPORT

The Directors present their Annual Report and Financial Statements of the Group for the year ended March 31, 2021.

### Delisting from TSX-V

On May 28, 2020, the Company announced that effective at the close of business Friday, May 29, 2020, the common shares of the Company would be delisted from the TSX-V at Zenith's request.

As announced on April 22, 2020, following the Company's dual listing on the Main Market for listed securities of the London Stock Exchange ("LSE") in January 2017 and the admission of its entire share capital to the Merkur Market of the Oslo Stock Exchange ("Merkur Market") in November 2018, the Company has seen its investor base move increasingly towards the UK and Norway, with limited investor support from the Canadian market.

Given the aforementioned, and in light of the impact of the COVID-19 pandemic and low oil price environment, the Company reviewed its corporate structure to maximize cost control and, following this review, elected to delist from the TSX-V. The benefits of delisting include materially lower administrative costs, greater operational efficiency and management time savings.

### Financial review of activity for the period

The Group issued equity on a number of occasions during the financial year ended March 31, 2021, raising a combined net total of CAD\$7.617m (March 31, 2020 - CAD\$10.847m) to finance the Group's reconfigured development strategy in Africa.

During the year, 586,816,410 (March 31, 2020 - 316,645,857) new Ordinary Shares were issued, as detailed in the financial statements (note 16) and as per the following table.

	Number of Shares	Amount CAD\$'000
<b>Balance – March 31, 2020</b>	<b>577,072,921</b>	<b>40,400</b>
Unit private placement proceeds	540,000,000	6,581
Units issued in settlement of debt	1,816,410	40
Equity sharing agreement	-	-
Exercise of warrants	45,000,000	1,000
Issue costs	-	(4)
<b>Total for the year</b>	<b>586,816,410</b>	<b>7,617</b>
<b>Balance – March 31, 2021</b>	<b>1,163,889,331</b>	<b>48,017</b>

Following the issue of the new Ordinary Shares, the Company had 1,163,889,331 common shares in issue and admitted to trading on the Euronext Growth of the Oslo Bors, as of March 31, 2021.

As of the same date, Zenith had 313,400,824 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

Furthermore, to avoid the risk of the excessive dilution of the capital, the Company issued 2 different sets of EMTN (Bond) accruing interest payable semi-annually and listed on the third Vienna Stock Exchange.

a. Zenith 8% EMTN - ISIN AT0000A23S79

Commencing 11 January 2019, the Issuer issued Loan Notes with the duration of 2 years. The maturity date of the Notes is 20 December 2021, and they carry an interest charge of 8 per cent per annum, payable semi-annually. As at the date of this document, the Issuer sold an aggregate amount of EUR 2,960,000 (CAD\$ 4,572,624) of the loan notes.

The Loan Notes listed on the Third Market (MTF) of the Vienna Stock Exchange ("Wiener Borse AG") This issuance is part of an approval to list up to EURO 10 million in several tranches. The Notes are governed by Austrian law and since the Notes are not convertible into equity of Zenith.

b. Zenith EMTN Programme up to Euro 25+M

On January 20, 2020, the Company announced the issuance of the following unsecured, multi-currency Euro Medium Term Notes, governed by Austrian law, at par value (the "Notes"):

- EURO 1,000,000 bearing interest of 10.125 per cent per year (the "EUR-Notes")
- GBP 1,000,000 bearing interest of 10.50 per cent per year (the "GBP-Notes")
- USD 1,000,000 bearing interest of 10.375 per cent per year (the "USD-Notes")
- CHF 1,000,000 bearing interest of 10.00 per cent per year (the "CHF-Notes")

The Notes were issued, and kept in Treasury, under Zenith's EUR 25,000,000 multi-currency Euro Medium Term Notes Programme, as announced by the Company on November 6, 2019, and will be due on January 27, 2024. The Notes were admitted to trading on the Third Market (MTF) of the Vienna Stock Exchange ("Wiener Borse AG"). As of March 31, 2021, the Company sold Notes for CAD\$2.5M equivalent, as follows:

Currency	Quantity	CAD\$ equivalent	ISIN	Description
EUR	259,000.00	365,856.75	XS2108546735	ZEEX 10.125 01/27/24 MTN
USD	534,000.00	666,345.33	XS2108546651	ZEEX 10.300 01/27/24 MTN
GBP	928,000.00	1,468,456.03	XS2108546578	ZEEX 10.375 01/27/24 MTN

The issue of the Notes is aligned with the Group's strategy of diversifying its financing towards non-equity dilutive funding to support its successful development.

The EMTN Programme, created with the primary purpose of financing the Company's development activities in Azerbaijan, with the related Prospectus being approved on November 6, 2019. Since its strategic reconfiguration, the Company has been using the EMTN Programme to finance its activities in the Republic of the Congo, Tunisia and Italy. The Company chose the Vienna Stock Exchange as it was viewed as a highly accessible market in terms of simplicity of process and listing costs.

On 25 June 2021, the Company announced that it had fully paid the semi-annual interest in relation to the Notes. The most recent interest payment in relation to the Notes is the third such payment, with previous interest payments having taken place during the months of June and December 2019 and 2020 respectively.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

The Group's yearly profit was mostly impacted by the gain on business acquisition related to the Tunisian assets, negatively impacted by the impairment of the assets in Congo, the loss on retranslation of the assets and non-recurrent administrative expenses related to the negotiation for the acquisitions.

During the year the Group incurred Production costs of CAD\$1,651k (2020 – CAD \$2,364k) and General and Administrative costs of CAD\$16,201k (2020 – CAD \$6,991k). The comparative amounts contained the results of the Azeri operations which was included within discontinued operations in the year ended March 31, 2020 and 2021.

The difference in the total amount of general and administrative expenses is due to:

- The decommissioning and impairment of PPE in Congo (CAD\$1,758k), included in administrative expenses,
- The retranslation of the asset in Congo (CAD\$ 4,095k), included in foreign exchange loss/(gain),
- The reversal of impairment (CAD\$2,724),
- The share-based payments (CAD\$1,778), relating to the fair value of the stock option issued during the year.

Net of the above amounts, that are all no-cash items, the total amount of administrative expenses for the year 2021 would be lower than the 2020 comparative one.

#### **Cash flow**

Cash used in investing activities totalled CAD\$202k (2020 - CAD\$1,242k). The cash from financing activities in 2021 totalled CAD\$10,426k (2020 - CAD\$11,465k), due to the share placings, issue of convertible loans and issue of bonds.

#### **Closing cash**

As of March 31, 2021, the Group held CAD\$1,631k in cash (2020 - CAD\$1,220k).

#### **Position of Group's business at the year end**

At the year end the Group's Statement of Financial Position shows current assets totaling CAD\$18,942k (2020 – CAD\$16,765k) and non-current assets totaling CAD\$100,494k (2020 – CAD\$34,318k).

#### **Business strategy**

As of the date of this report the Company's primary activity is that of being an international oil and gas production, development and exploration business.

The Company has a portfolio of oil and gas assets in Italy and Africa. The Group's principal assets are held through:

- (i) its wholly owned subsidiary, Zenith Energy Netherlands BV ("Zenith Netherlands"), which holds a 45% interest in the Sidi El Kilani Concession in Tunisia (subject to Tunisian government approval of the acquisitions);
- (ii) its wholly owned subsidiary, Zenith Energy Africa Limited ("Zenith Africa"), which holds a 45% interest in the Tunisian onshore Ezzaouia Concession ("Ezzaouia");
- (iii) its wholly owned subsidiary, Compagnie Du Desert Ltd ("CDD"), which holds a 100% interest in the El Bibane and Robbana concessions in Tunisia;

- (iv) its wholly owned subsidiary, Zenith Congo SA (“Zenith Congo”) which has received (subject to final approval and negotiation of a production sharing agreement) a 25-year licence for the Tilapia oilfield in the Republic of the Congo, in which it holds a 60% interest; and
- (v) Canoel Italia S.r.l. (in which the Company has a 98.64% shareholding), which holds various working interests in 13 onshore exploration and production properties in Italy.

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

The Company’s strategy is, among other things, to (i) grow through international acquisitions; (ii) increase the production and reserves from its international inventory of oil and gas assets; (iii) target its operations at areas with advantageous access points for its exploration activities with a reasonably stable economic and business environment; (iv) develop a balanced portfolio of short, medium and long-term opportunities; (v) seek innovative ways to unlock value; (vi) achieve and maintain a robust, well-funded business with the financial flexibility to fund high-impact exploration, appraisal and development programmes; and (vii) unlock oil and gas reserves still unexploited in old and marginal oil and gas fields through the use of new technology.

### **Principal risks and uncertainties**

The Group operates in an uncertain environment and is subject to a number of risk factors. The Directors consider the following risk factors are of particular relevance to the Group's activities and to any investment in the Group. It should be noted that the list is not exhaustive and that other risk factors not presently known or currently deemed immaterial may apply. The risk factors are summarized below:

#### ***The impact of global oil prices on the Company***

Demand for oil and gas is closely related to the health of the world economy while supply is determined more by political matters. The price of oil and gas is set at a global level with small variances for local conditions. Zenith is a very small producer and the price it receives for the oil and gas it produces is determined by global supply and demand factors beyond its control.

Oil and gas prices depend on numerous factors over which the Group does not have any control, including global supply, international economic trends (such as the current downturn caused by COVID-19), currency exchange fluctuations, inflation, consumption patterns and global or regional political events.

The Group’s financial performance may therefore be substantially impacted both positively and negatively by factors. Changes in global prices for oil and gas may result in the Group no longer being able to produce oil and/or gas on a profitable basis. Historically, international crude oil and natural gas prices have fluctuated widely. A material decline in the price of crude oil or natural gas would have a material adverse effect on the Group’s financial results and reserves estimates.

***A substantial portion of the Group’s assets and operations outside of Europe are exposed to political and economic risks, and future disruptions may have a material adverse effect on THE GROUP’s business***

A significant portion of the Group’s oil and gas assets and of the Group’s supply sources is located in countries outside of the European Union – with developing economies or unstable political environments. As a result, a significant portion of the Group’s revenue is derived from, or is dependent on, countries in which the Group’s operations are exposed to economic and political risks, including expropriation and nationalization of property, civil strife and acts of war or terrorism. In addition, in certain countries in which the Group is active, it may be difficult to repatriate investment and profits. If it is perceived that the Group is not respecting or advancing the economic and social progress of the communities in which it operates, its reputation and shareholder value

could be damaged. Any future disruptions may have a material adverse effect on the Group's business, results of operations and financial condition.

***Activities in the oil and gas sectors can be dangerous, posing health, safety and environmental risks***

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property as well as the environment or personal injury.

In particular, the Group may produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in a liability to the Group.

In accordance with industry practice, the Group is not fully insured against all of these risks, nor are all such risks insurable. Although the Group maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Group could incur significant costs. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations.

Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

***Risks relating to the Group's business strategy***

The Group is dependent on the ability of the Directors to identify suitable investment opportunities and to implement the Group's strategy. There is no assurance that the Group's activities will be successful in implementing its strategy of acquiring a suitable investment that will ultimately be developed.

***Environmental and other regulatory requirements***

The event of a breach with any environmental or regulatory requirements may give rise to reputational, financial or other sanctions against the Group, and therefore the Board considers these risks seriously and designs, maintains and reviews its policies and processes so as to mitigate or avoid these risks. Whilst the Board has a good record of compliance, there is no assurance that the Group's activities will always be compliant.

***Government intervention and regulation may have a material adverse effect on Zenith's business. Zenith might not be able to comply with its obligations under licences.***

The oil and gas industry is subject to regulation and intervention by governments, in particular in matters such as the award of exploration and production interests, restrictions on production and exports, environmental measures, control over the development and abandonment of fields and installations, the nationalization or renationalization of assets, imposition of specific drilling obligations, environmental and health and safety protection controls and other risks relating to changes in local government regimes and policies.

In addition, Zenith has to comply with conditions contained in licenses, such as operating permits. A failure by Zenith to comply with substantial conditions might lead to governmental intervention. Any violations of substantial conditions may therefore have a material adverse effect on Zenith's business, results of operations



and financial condition.

Zenith buys, sells and trades oil and gas products in certain regulated commodity markets. The oil industry is also subject to the payment of royalties and taxation, which tend to be high compared with those payable in respect of other commercial activities, and operates in certain tax jurisdictions that feature a degree of uncertainty relating to the interpretation of, and changes to, tax law. As a result of new laws and regulations or government interventions, Zenith could be required to curtail or cease certain operations, or Zenith could incur additional costs, all of which may have a material adverse effect on Zenith's business, results of operations and financial condition.

***Lack of diversification of the Company's business activity***

The Company is currently only involved in oil production in Africa 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, since it will likely not be able to compensate negative effects that appear in one field of business with its business activities in another area of operations.

**Financing**

The Board are seeking to grow and acknowledge that financing could depend upon the Group's ability to obtain financing primarily through a further raising of new equity capital. The Group's ability to raise further funds may be affected by the success of its investments both in terms of both in terms of acquisitions and developing its asset base. The Group may not be successful in procuring the requisite funds on terms which are acceptable to it (or at all) and, if such funding is unavailable, the Group may be required to reduce the scope of its operations. Further, Shareholders' holdings of Ordinary Shares may be materially diluted if debt financing is not available.

**Brexit**

The Group does not foresee any material issues with Brexit at this stage and indeed would not look to conclude any transaction where the possibility of a detrimental effect caused by Brexit would be likely. There may be issues raising funds from investors in the short term however investor markets in the UK have continued to be strong and it remains too early to say if there will be any direct impact. The Directors continue to monitor events and as the Directors receive more information from the Government and the EU, they will assess the impact to the Group and take appropriate steps as required.

**COVID-19**

The recent global health crisis brought about by the COVID-19 pandemic has affected the Group's business operations in a very limited manner. More particularly, only its operations in Italy were affected to a limited degree because third-party employees working on the concessions were working a reduced regime as per government guidelines.

However, it should be underlined that the crisis has proven favourable for the Group's acquisition campaign in Africa. Specifically, the Group has been able to obtain favourable commercial terms in its conditional agreement for the acquisition of onshore production acreages in Tunisia and an acquisition in the Republic of the Congo. The decline in oil prices caused by the COVID-19 pandemic has therefore been beneficial to the Group in pursuing its acquisition activities.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

In addition, management has taken significant steps during 2020 to reduce the Group's cost base to help the Group navigate a more challenging macro-economic environment as a result of the COVID-19 pandemic. While significant cost savings have been identified and implemented, additional funds will still need to be raised to enable the Group to remain in operation for the foreseeable future. At the date of preparing these financial statements, this funding has not been secured. This represents a material uncertainty regarding the ability of the Group to continue as a going concern.

**Market conditions**

Market conditions, including general economic conditions and their effect on exchange rates, interest rates and inflation rates, may impact the ultimate value of the Group regardless of its operating performance. The Group also faces competition from other organizations, some of which may have greater resources or be more established in a particular territory. The Board considers and reviews all market conditions to try and mitigate any risks that may arise from these.

**Substantial shareholders**

As of August 26, 2021, the total number of issued Ordinary Shares with voting rights in the Company was:

Class of share	Total number of shares	Number of voting rights per share	Total number of voting rights per class of share
Common Shares in issue and admitted to trading on the Main Market of the London Stock Exchange	313,400,824	1	313,400,824
Common Shares in issue and admitted to trading on the Euronext Growth Market of the Oslo Børs - representing the total outstanding common share capital of the Company	1,407,711,650	1	1,407,711,650

**Directors' interest**

This table represents the Directors' interests in the Company, as of the date of publication of this report:

PARTY NAME	2021		2020	
	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL
ANDREA CATTANEO	63,438,512	4.51	57,984,115	5.56
SERGEY BOROWSKIY	3,849,289	0.27	3,849,289	0.37
DARIO SODERO (1)	77,500	0.01	77,500	0.01
JOSE RAMON LOPEZ-PORTILLO	48,000	0.01	48,000	0.01

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

PARTY NAME	2021		2020	
	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL
LUIGI REGIS MILANO (2)	-	-	10,813,674	1.04
ERIK LARRE (2)	-	-	4,334,068	0.42

- 1) Mr. Sodero controls 77,500 Common Shares of the Company in indirect ownership. The 77,500 Common Shares in which Dario Sodero has a beneficial interest are held by Planaval Resources Ltd., a company controlled by Mr. Sodero. Mr. Sodero owns 100% of the share capital of Planaval Resources Ltd.
- 2) Mr. Regis Milano and Mr. Larre resigned on January 15, 2021.

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at the date of approval of this report.

PARTY NAME	2021		2020	
	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL
ANDREA CATTANEO	63,438,512	4.51	57,984,115	5.56
Nordnet AB	54,196,155	3.85	-	-
DEAN ANTONY CLARK	-	-	46,500,000	4.46
MITON UK MICROCAP TRUST PLC	-	-	19,848,312	1.90
MIRABAUD & CIE SA	-	-	11,556,167	1.11

#### Dividends

The Directors do not propose a dividend in respect of the year ended March 31, 2021 (March 31, 2020: nil).

#### Events subsequent to the year end

Details of events subsequent to the year-end are set out in note 31.

#### Going concern

The Group's business activities, together with facts likely to affect its future operations and financial and liquidity positions are set out in the Chairman's Statement. In addition, note 26 to the financial statements discloses the Group's financial risk management policy and note 2 details out further considerations made by the Director in respect of going concern. Their consideration has included a review of forecasts, the repayment and the restructuring of loans, the ability for fund raise and an assessment as to whether the Tilapia Oilfield licence will be granted to the Group.

The Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the annual financial statements. Further details on assumptions and conclusions drawn on going concern are included in the statement of going concern included in note 2 to the

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

financial statements.

The Directors have made reference to going concern, because they consider that there is a material uncertainty.

**Auditors**

During the current year, Jeffreys Henry LLP were appointed as auditor to the Group. A resolution proposing that they be re-appointed will be put at a General Meeting.

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

The Directors are required to prepare financial statements for each financial year. The Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board ("IASB"). The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as issued by the IASB have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Approved by the Board dated on August 27, 2021

Signed  .....

Jose Ramon Lopez-Portillo Chairman

## **GOVERNANCE REPORT**

### **General**

As Zenith Energy Ltd has a standard listing within the United Kingdom, it is not required to comply with the Financial Conduct Authority's requirements report on compliance with, and application of, the UK Corporate Governance Code. The disclosures below, however, are required by Disclosure Guidance & Transparency Rules and NI 58-101 Disclosure of Corporate Governance Practices. The board of directors (the "Board") of Zenith Energy Ltd. (the "Company") has not adopted a Governance Code as the size of the Company and the number of staff at the parent Company does not warrant the adoption of such code, however, the Board recognizes that good corporate governance is of fundamental importance to the success of the Group and procedures are in place in operating entities.

The Group's governance practices are the responsibility of the Board.

### **Leadership**

The Group is headed by an effective Board which is collectively responsible for the long-term success of the Group. The role of the Board is to oversee the activity of management and to decide the strategy going forward. The role of the Non-Executive Directors is to review and monitor the activity of the Directors and managers that are involved in the operations of the Group. Acquisitions and disposals, borrowing facilities, equity issuances and any other major decisions out of the ordinary course of business are specifically reserved for the Board.

The Board is formed by a highly incentivized and committed group of individuals, including founders of the Group with significant interest in the common share capital of the Group, that understand and believe in the Group's strategy, providing their support even without an effective remuneration, waiting for the desired development to lead to financial conditions such that the recognition of a fee does not divert funds from investments.

Mr Borowski was unable to attend certain Board meetings due to other professional commitments and time zone differences. However, he has provided consistent support and constant interaction with the Company's management, specifically in relation to the Company's fruitful new relationship with CNPC.

On December 18, 2020, the Company announced that its Chief Financial Officer, Mr. Luca Benedetto, has been appointed to the Board of Directors as an Executive Director.

On January 18, 2021, the Company announced the Board Changes resulting from the AGM:

1. As indicated in the information circular distributed to shareholders, Mr. Luigi Regis Milano, an Executive Director of the Company, did not stand for re-election at the AGM and retired from the Board of Directors due to ill health.
2. Mr. Erik Sture Larre, a Non-Executive Director of the Company, did not stand for re-election at the AGM and retired from the Board of Directors to concentrate on other business activities.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

The Directors attendance to meetings up to the date of this report was as follows:

<b>Date of Board Meeting</b>	<b>Jose Ramon Lopez-Portillo</b>	<b>Andrea Cattaneo</b>	<b>Luigi Regis Milano (1)</b>	<b>Dario Ezio Sodero</b>	<b>Erik Larre (1)</b>	<b>Sergey Borowskiy</b>	<b>Luca Benedetto (2)</b>
13/04/2020 (B)	✓	✓	✓	✓	-	-	n/a
03/06/2020 (B)	-	✓	✓	✓	-	✓	n/a
16/07/2020 (B)	-	✓	✓	✓	-	✓	n/a
23/10/2020 (B)	✓	✓	✓	✓	-	✓	n/a
30/11/2020 (B)	-	✓	-	✓	-	✓	n/a
30/11/2020 (AC)	✓	n/a	n/a	✓	-	n/a	n/a
09/12/2020 (B)	-	✓	-	✓	-	✓	n/a
15/01/2021 (B)	✓	✓	n/a	✓	n/a	-	✓
15/03/2021 (B)	✓	✓	n/a	✓	n/a	-	✓

AC: Audit Committee Meeting – B: Board Meeting

(1) Resigned on January 15, 2021

(2) Appointed on December 18, 2020

## **The Board**

The Board is ultimately responsible for the effectiveness of the Group's system of internal controls. The Board verifies the implementation and effectiveness of the system that the top and middle management have implemented in the Group to prevent losses, fraud, corruption and misuse of assets, human resources and cash. Its key strategy has been to establish financial reporting procedures that provide the Board of Directors with a reasonable basis to make judgements as to the financial position and prospects of the Group. Executive directors and non-executive directors have been appointed by the Board to assist with the implementation of this strategy and report progress to the Board. All the non-executive directors are considered independent from executive directors and management.

The Group's board of directors consists of six members namely

- Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)
- Andrea Cattaneo (President, CEO and Director)
- Luca Benedetto (CFO and Director)
- Dario Ezio Sodero (Non-Executive Director)
- Sergey Borovskiy (Non-Executive Director)

As demonstrated by the background of the directors and managers, the Board present a large diversity in citizenship, age, education, profession and religion. The Board is committed to equal opportunities and intends to appoint a female Non-Executive Director in the near future.

## **Directorships and partnerships**

In addition to their respective roles and directorships at the Group, the Directors are members of the administrative, management or supervisory bodies (the "directorships") or partners of the following companies or partnerships:

<b>Name</b>	<b>Current directorships/partnerships</b>
Jose Ramon Lopez-Portillo	Hybridair Ltd World SkyCat Ltd
Luca Benedetto	—
Andrea Cattaneo	—
Dario Ezio Sodero	Planaval Resources Ltd
Sergey Borovskiy	ITI Capital Asia Kaisun Holdings General Transactions Inc. National Agency for Direct Investment (NAPI). South China Heavy Industries Group

## **Orientation and continuing education**

The Board is responsible for the orientation and education of new members of the board of directors and all new directors are provided with copies of the Group's board and committee mandates and policies, the Group's by-laws, documents from recent Board meetings and other reference materials relating to the duties and obligations of directors, the business and operations of the Group. New directors are also provided with opportunities for meeting and discussions with senior management and other directors.

Prior to joining the board, each new director will meet with the Chief Executive Officer of the Group. Such officer is responsible for outlining the business and prospects of the Group, both positive and negative, with a view to ensuring that the new director is properly informed to commence his duties as a director.

Each new director is also given the opportunity to meet with the auditors and counsel to the Group. As part of the annual Board of Directors' assessment process, the Board of Directors determines whether any additional education and training is required for its members.

## **Ethical business conduct**

The directors encourage and promote a culture of ethical business conduct through communication and supervision as part of their overall stewardship responsibility. In addition, the Group has adopted a Code of Conduct which addresses the Group's continuing commitment to integrity and ethical behavior. The Code of Conduct establishes procedures that allow directors, officers and employees of the Group to confidentially submit their concerns to the Chief Executive Officer or the Chairman of the Board regarding questionable ethical, moral, accounting or auditing matters, without fear of retaliation. To the Group's knowledge there have been no departures from this Code of Conduct that would necessitate the filing of a material change report.

A copy of the Code of Conduct is available to review at the head office of the Group during business hours.

## **Nomination of Directors**

The Board as a whole is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders of the Group, with the goal of ensuring that the Board consists of an appropriate number of directors who collectively possess the competencies identified as being appropriate to the effectiveness of the Board as a whole.

## **Remuneration**

The Remuneration Committee is responsible for reviewing the Group's overall compensation strategy, as well as being responsible for reviewing and recommending for approval the salaries and compensation of the Group's executive officers.

The Remuneration Committee also reviews the compensation of the outside directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable organizations.

The remuneration for key management personnel, specifically those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly, are detailed in the following note 7-b) Key management compensation



## **Board Committees**

The Group's Board of Directors has three committees, the Audit Committee, the Remuneration Committee and the Corporate Governance Committee.

**(a) Audit Committee**

The Audit Committee comprises Jose Ramon Lopez-Portillo, Dario Sodero and Sergey Borovskiy and is chaired by Dario Sodero. The Audit Committee meets at least three times a year and otherwise as required. It has responsibility for ensuring that the financial performance of the Company is properly reported on and reviewed, and its role includes monitoring the integrity of the financial statements of the Group (including annual and interim accounts and results announcements), reviewing the effectiveness of the Group's internal control review function and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors. The Audit Committee has unrestricted access to the Group's external auditors. The ultimate responsibility for reviewing and approving the annual reports and accounts and the interim reports remains with the Board. The Audit Committee gives due consideration to laws and regulations and the requirements of the Listing Rules. The Group has an Audit Committee Charter.

**(b) Remuneration Committee**

The Remuneration Committee comprises Jose Ramon Lopez-Portillo, Dario Sodero and Sergey Borovskiy and is chaired by Sergey Borovskiy. The Remuneration Committee has not met during the year ended 31 March 2021. The Remuneration Committee has responsibility for determining the Group's policy on the remuneration packages of the Group's chief executive, the chairman, the executive and non-executive directors and other senior executives. The Remuneration Committee also has responsibility for (i) recommending to the Board a compensation policy for directors and executives and monitoring its implementation; (ii) approving and recommending to the Board and the Group's Shareholders the total individual remuneration package of the chairman, each executive and non-executive director and the chief executive officer (including bonuses, incentive payments and share options or other share awards); and (iii) approving and recommending to the Board the total individual remuneration package of all other senior executives (including bonuses, incentive payments and share options or other share awards), in each case within the terms of the Group's remuneration policy and in consultation with the chairman of the Board and/or the chief executive officer. No Director or manager may be involved in any discussions as to their own remuneration.

**(c) Corporate Governance Committee**

The Corporate Governance Committee comprises Sergey Borovskiy, Dario Sodero and Jose Ramon Lopez-Portillo and is chaired by Jose Ramon Lopez-Portillo. The Corporate Governance Committee has not met during the year ended 31 March 2021. The Corporate Governance Committee ensures that the Group has in place sufficient procedures, resources and controls to enable it to comply with its continuing obligations as a company admitted to the Standard Segment of the Official List. The Corporate Governance Committee also monitors the Group's procedures to approve (a) announcements to ensure that the information disclosed by the Group is timely, accurate, comprehensive and relevant to the business of the Group and (b) any share dealings by directors or employees or announcements made by the Group to ensure compliance with the Group's policies, the Market Abuse Regulation, the Disclosure Guidance and Transparency Rules and the Listing Rules and such other regulations to which the Group is subject from time to time.

## **Assessments**

The Remuneration Committee is responsible for developing an annual assessment of the overall performance of the Board and its committees.

The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. To date, the Remuneration Committee and the Board have not put into place a formal process for assessing the effectiveness of the Board as a whole, its committees or individual directors, but will consider implementing one in the future should circumstances warrant. Based on the Group's size, its stage of development and the number of individuals on the Board of Directors, the Remuneration Committee and the Board consider a formal assessment process to be inappropriate at this time. The Remuneration Committee and the Board plan to continue evaluating the Board's effectiveness on an ad hoc basis.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZENITH ENERGY LIMITED FOR THE YEAR ENDED 31 MARCH 2021

### Opinion

We have audited the financial statements of Zenith Energy Ltd (the 'group') for the year ended 31 March 2021 which comprise the consolidated statement of income and other comprehensive income, the consolidated statement of financial position, the consolidated statements of cash flows, the consolidated statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the International Accounting Standards Board (IASB), as applied in accordance with the provisions of the British Columbia Business Corporations Act.

#### In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 March 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the IASB as applied in accordance with the provisions of the British Columbia Business Corporations Act;
- the financial statements have been prepared in accordance with the requirements of the British Columbia Business Corporations Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which explains that the Group is dependent upon additional fund raises within the going concern period in order to continue developing its oil and gas projects and to simultaneously satisfy loan repayments which are due within the going concern period. The Group has not secured these funds at the date of this report.

The Covid-19 pandemic has increased the uncertainty and impacted consumer confidence in the wider economy. It remains difficult to assess reliably whether there will be any material disruption in the future which could adversely impact the Group's forecast.

As stated in note 2, the events or conditions, along with the other matters as set forth above, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included a detailed review of future forecasts and assessing the assumptions utilised by management in preparing the forecast. These assumptions were further assessed along with those used in the prior year to determine reasonability. We have reviewed the cash held at year end up to the date of signing of this report and have further taken into account management's previous ability to raise equity funding when required in order to maintain operations.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

We have performed the following audit procedures in relation to going concern:

- Evaluated the suitability of management's model for the forecast.

The forecast includes a number of assumptions related to future cash flows and associated risks. Our audit work has focused on evaluating and challenging the reasonableness of these assumptions and their impact on the forecast period and ensuring that all key matters are correctly disclosed in the going concern note.

Specifically, we obtained, challenged and assessed management's going concern forecast and performed procedures including:

- Verifying the consistency of key inputs and fund raisers relating to future costs to other financial and operational information obtained during the audit.
- Assessed the reasonableness of expenses and costs established.
- Corroborated with management relating to future cash inflows.
- We reviewed the latest management accounts to gauge the financial position.
- We performed stress tests.
- Considered the Group's historic ability to raise funds, and
- Reviewed the financing options available to the Group to evaluate the ability of the Group to pay their debts as they become due.

As such, in auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### **Our approach to the audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

#### **How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 10 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of Zenith Energy Ltd (the parent), Canoe Italia S.r.l, Zenith Aran Oil Company Ltd, Zenith Energy (O&G) Ltd and Zena Drilling Limited, which were individually financially significant. Two additional reporting units, Anglo African Oil & Gas Congo S.A.U. and Ecumed Zarzis were also individually financially significant and were audited by local component auditors. The sum of these significant entities accounted for 100% of the Group's revenue and 100% of the Group's absolute loss before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). We also performed specified audit procedures over account balances and transaction classes that we regarded as material to the Group at all reporting units.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

- Business combination and fair value accounting
- Carrying value of property, plant and equipment
- Valuation of defined benefit pension schemes' obligations

As there is a material uncertainty for the going concern assumption, this key audit matter has not been included within this key audit matters section. This is in accordance with the guidance set out within ISA (UK) 705. These are explained in more detail below.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Business combination and fair value accounting</b>            During the period under review management undertook a material transaction in respect of the acquisition of Ecumed Zarzis.            Management have used their estimation and judgement in accounting for the acquisition of Ecumed Zarzis in line with IFRS 3 Business combinations including their provisional assessment of the fair values of the net assets acquired. We consider the business combination accounting to be a key audit matter.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Obtaining and reviewing the terms within the acquisition agreement and assessing them in accordance with the control criteria in IFRS 3 to ascertain if a business combination had taken place;</li> <li>• Critically reviewing Management's assessment of the timing that the business combination took place;</li> <li>• Reviewing management's assessment of fair value and challenging all judgements and estimations within that assessment; and</li> <li>• Reviewing the work performed by the component auditors and requesting additional procedures where required.</li> </ul> <p>Our opinion is not modified in this respect.</p>
<p><b>Carrying value of Property Plant and Equipment (PPE)</b>            The carrying value of PPE in the financial statements is CAD\$98.6m which represents 78% of the Group's total assets.            Included within PPE is CAD\$86.1m of assets which were acquired in the business combination of Ecumed Zarzis. The carrying value also includes CAD\$12.5m of PPE in respect of the Group's producing assets in Italy and Dubai.            Management are required to use their estimation and judgement in assessing the carrying value of PPE for impairment and for this reason, we consider the carrying value of PPE to be a key audit matter.            In addition, the following external indications of impairment existed at 31 March 2021:</p> <ul style="list-style-type: none"> <li>• The carrying amount of the Group's net assets exceed the market capitalisation; and</li> <li>• Global oil and gas prices have been impacted as a result of COVID-19 as well as other factors and these</li> </ul>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Obtaining the board approved impairment assessment paper and challenging the key assumptions and estimations therein;</li> <li>• Reviewing management's assessment of recoverable amount (likely a VIU calculation) and critically assessing all inputs;</li> <li>• Reviewing the underlying economic models used in the Competent Persons Report ("CPR") from which the valuation arises and challenging the key assumptions therein including:</li> <li>• Ensuring that the Competent Person had the relevant expertise to perform their work to the appropriate level of skill;</li> <li>• Comparing commodity price assumptions to future prices;</li> </ul>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

<p>will directly impact the value in use calculation.</p>	<ul style="list-style-type: none"> <li>• Challenging key inputs into the models including the discount rates used and benchmarking them where appropriate;</li> <li>• Reviewing the CPR for mathematical accuracy and performing sensitivity analysis of the various underlying assumptions;</li> <li>• Assessing the carrying value by considering the range of valuations indicated by the differing scenarios;</li> <li>• Considering the ability of the group to perform the required site development to ensure the site can meet production levels included in and underlying the CPR valuation and to have access to the capital resources required to develop projects successfully;</li> <li>• A review of historical forecasts/budgets against actual to assess the ability of management and their experts to accurately forecast; and</li> <li>• Reviewing the work performed by the component auditors and requesting additional procedures where required.</li> </ul> <p>Our opinion is not modified in this respect.</p>
---	---

**Our application of materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements
Overall materiality	CAD\$ 1,210,000 (2020: CAD\$ 530,000)
How we determined it	1% of gross assets
Rationale for benchmark applied	We believe that gross assets is a primary measure used by shareholders in assessing the performance of the Group as the group continues to focus on their new geographical strategy.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between CAD\$ 15,000 and CAD\$ 411,000.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above CAD\$ 60,500 (Group audit) (2020: CAD\$ 26,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

**Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement set out on pages 21 and 22, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

**The extent to which the audit was considered capable of detecting irregularities including fraud**

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the senior statutory auditor ensured the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognize non-compliance with applicable laws and regulations;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the group.
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the group's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates set out in Note 4 were indicative of potential bias;
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance;
- enquiring of management as to actual and potential litigation and claims; and
- Obtaining confirmation of compliance from the group's legal advisors.

There are inherent limitations in our audit procedures described above. The more removed those laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance. Auditing standards also limit the audit procedures required to identify non-compliance with laws and regulations to enquiry of the directors and other management and the inspection of regulatory and legal correspondence, if any.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Other matters which we are required to address**

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and we remain independent of the Group and the parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.



**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

**Use of this report**

This report is made solely to the Company's members, as a body. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



S. Parmar

Engagement Partner  
**For and on behalf of Jeffreys Henry LLP (Statutory Auditors)**  
Finsgate  
5-7 Cranwood Street  
London EC1V 9EE  
27 August 2021

**CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME**

	Note	Financial year ended	
		March 31, 2021	March 31, 2020
		CAD \$'000	CAD \$'000
<b>Continuing operations</b>			
Revenue		596	735
<b>Cost of sales</b>			
Production costs		(1,651)	(2,364)
Depletion and depreciation	11	(790)	(846)
<b>Gross loss</b>		<b>(1,845)</b>	<b>(2,475)</b>
Administrative expenses	5	(16,201)	(6,991)
<b>Operating loss</b>		<b>(18,046)</b>	<b>(9,466)</b>
Gain on business combination	6	36,491	20,111
Other gains and losses	8	(13,466)	1,425
Finance expense	9	(1,451)	(1,742)
<b>Profit for the year before taxation</b>		<b>3,528</b>	<b>10,328</b>
Taxation	10	(3)	(4)
<b>Profit for the year from continuing operations attributable to owners of the parent</b>		<b>3,525</b>	<b>10,324</b>
Loss from discontinued operations (attributable to owners of the parent)	21	-	(580,633)
<b>Profit/(Loss) for the year attributable to owners of the parent</b>		<b>3,525</b>	<b>(570,309)</b>
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		1,054	(651)
Other comprehensive income for the year, net of tax		1,054	(651)
<b>Total comprehensive income for the year attributable to owners of the parent</b>		<b>4,579</b>	<b>(570,960)</b>
<b>Earnings per share</b>	23	<b>CAD \$</b>	<b>CAD \$</b>
Profit/(loss) for the year - basic		0.004	(1.42)
Profit/(loss) for the year – diluted		0.003	(1.42)
From continuing operations - basic		0.004	0.03
From continuing operations - diluted		0.003	0.03
From discontinued operations - basic and diluted		n/a	(1.45)

The notes on pages 38 to 96 form part of the Financial Statements.

Zenith Energy Ltd.  
Annual Report & Financial Statements  
For the Year Ended March 31, 2021

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

ASSETS	Note	Financial year ended	
		March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
<b>Non-current assets</b>			
Property, plant and equipment	11	100,482	34,305
Financial assets at amortised cost	12	12	13
		<u>100,494</u>	<u>34,318</u>
<b>Current assets</b>			
Inventory	13	2,669	799
Trade and other receivables	14	14,642	14,386
Directors' loan account	14	-	360
Cash and cash equivalents		1,631	1,220
		<u>18,942</u>	<u>16,765</u>
<b>TOTAL ASSETS</b>		<u><b>119,436</b></u>	<u><b>51,083</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	16	48,017	40,400
Share warrants & option reserve	17	2,465	1,010
Contributed surplus		4,643	4,320
Retained earnings		(31,322)	(35,901)
<b>Total equity</b>		<u><b>23,803</b></u>	<u><b>9,829</b></u>
<b>Non-current liabilities</b>			
Loans	19	920	2,260
Non-convertible bonds	20	2,500	4,273
Deferred consideration payable	6	42,238	-
Deferred tax liabilities	10	2,398	-
Decommissioning provision	22	16,219	13,543
Retirement provision		1,005	50
<b>Total non-current liabilities</b>		<u><b>65,280</b></u>	<u><b>20,126</b></u>
<b>Current Liabilities</b>			
Trade and other payables	18	21,028	18,832
Loans	19	4,359	2,210
Non-convertible bonds	20	4,966	86
<b>Total current liabilities</b>		<u><b>30,353</b></u>	<u><b>21,128</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>119,436</b></u>	<u><b>51,083</b></u>

Approved by the Board on August 27, 2021

Signed 

Jose Ramon Lopez-Portillo Chairman

The notes on pages 38 to 96 form part of the Financial Statements.

Zenith Energy Ltd.  
Annual Report & Financial Statements  
For the Year Ended March 31, 2021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Attributable to owners of the parent				Total  CAD \$'000
	Share capital	Share warrants & option reserve	Contributed surplus	Retained earnings	
	CAD \$'000	CAD \$'000	CAD \$'000	CAD\$'000	
<b>Balance as at April 1, 2019</b>	<b>28,866</b>	<b>1,147</b>	<b>4,125</b>	<b>534,943</b>	<b>569,081</b>
Loss for the year	-	-	-	(570,309)	(570,309)
Other comprehensive income	-	-	-	(651)	(651)
Total comprehensive income	-	-	-	(570,960)	(570,960)
Share issue net of costs – debt settlement	748	-	-	-	748
Share issue net of costs - private placement	10,628	-	-	-	10,628
Value of warrants issued	-	174	-	-	174
Exercise of options	158	(116)	-	116	158
Warrants expired	-	(195)	195	-	-
Total transactions with owners recognised directly in equity	11,534	(137)	195	116	11,708
<b>Balance as at March 31, 2020</b>	<b>40,400</b>	<b>1,010</b>	<b>4,320</b>	<b>(35,901)</b>	<b>9,829</b>
Loss for the year	-	-	-	3,525	3,525
Other comprehensive income	-	-	-	1,054	1,054
Total comprehensive income	-	-	-	4,579	4,579
Share issue net of costs – debt settlement	40	-	-	-	40
Share issue net of costs - private placement	6,577	-	-	-	6,577
Value of warrants issued	-	480	-	-	480
Value of options issued	-	1,349	(51)	-	1,298
Exercise of warrants	1,000	(48)	48	-	1,000
Fair value of options expired	-	(215)	215	-	-
Warrants expired	-	(111)	111	-	-
Total transactions with owners recognised directly in equity	7,617	1,455	323	-	9,395
<b>Balance as at March 31, 2021</b>	<b>48,017</b>	<b>2,465</b>	<b>4,643</b>	<b>(31,322)</b>	<b>23,803</b>

Reserve	Description and purpose
Share capital	Amount subscribed for share capital
Share warrants & option reserve	Relates to increase in equity for services received – equity settled share transactions
Contributed surplus	Expired share options and warrants issued in previous years
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The notes on pages 38 to 96 form part of the Financial Statements.

Zenith Energy Ltd.  
Annual Report & Financial Statements  
For the Year Ended March 31, 2021

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	Financial year ended	
		March 31, 2021	March 31, 2020
		CAD \$'000	CAD \$'000
<b>OPERATING ACTIVITIES</b>			
Profit/(loss) for the year before taxation		3,528	(570,305)
Options/warrants charge	17	1,778	174
Foreign exchange		260	(1,266)
Gain on business combination		(36,491)	(20,111)
Depletion and depreciation	11	790	846
Impairment	11	18,822	-
Discontinued operations	21	-	578,104
Decommissioning provision reversed	22	(5,189)	-
Deferred Tax liability	10	2,398	-
Other gains and losses	8	-	(1,425)
Finance expense	9	1,451	1,742
Change in working capital	15	2,840	180
<b>Net cash used in operating activities</b>		<b>(9,813)</b>	<b>(12,061)</b>
<b>INVESTING ACTIVITIES</b>			
Cash acquired on business combination	6	-	105
Consideration paid on business combination	6	(150)	-
Purchase of property, plant and equipment	11	(52)	(1,347)
<b>Net cash used in investing activities</b>		<b>(202)</b>	<b>(1,242)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of shares, net of transaction costs		6,617	10,689
Proceeds from exercise of warrants and options		1,000	158
Finance Expense	9	(982)	(830)
Repayments of loans	19	(1,847)	(3,420)
Proceeds from loans	19	2,631	2,004
Proceeds from issue of bonds	20	3,154	3,058
Repayment of bonds	20	(147)	(194)
<b>Net cash generated from financing activities</b>		<b>10,426</b>	<b>11,465</b>
Net increase/(decrease) in cash and cash equivalents		411	(1,838)
<b>Cash and cash equivalents at beginning of year</b>		<b>1,220</b>	<b>3,058</b>
<b>Cash and cash equivalents at end of year</b>		<b>1,631</b>	<b>1,220</b>

The cash transactions from discontinued operations included above are as follows:

Operating activities	-	(2,528)
Investing activities	-	(696)
Financing activities	-	-
<b>Net cash used in discontinued operations</b>	<b>-</b>	<b>(3,224)</b>

## **Notes to the financial statements**

### **1. Corporate and Group information**

The consolidated financial statements of Zenith Energy Ltd. and its subsidiaries (collectively, the “Group”) have been prepared on the basis set out below. Zenith Energy Ltd are exempt from preparing separate parent company financial statements for the year ended 31 March 2021 in line with the Canada Business Corporations Act.

Zenith Energy Ltd. (“Zenith” or the “Group”) was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007, and is domiciled in Canada. The address of the Group’s registered office is 20<sup>th</sup> Floor, 250 Howe Street, Vancouver, BC. V6C 3R8, Canada and its business address is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Group’s primary business activity is the international development of oil and gas production and development assets. As publicly reported, the Group is currently in the process of seeking to complete a number of acquisitions in Africa.

The Company's website is [www.zenithenergy.ca](http://www.zenithenergy.ca).

Zenith is a public company listed on the Main Market of the London Stock Exchange under the ticker “ZEN”, and with its entire common share capital admitted to trading on the Euronext Growth Oslo under the ticker “ZENA-ME”.

### **2. Basis of preparation**

The consolidated financial statements presented in this document have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements have been prepared under the historical cost convention except for financial instruments which are measured at fair value through profit or loss. The financial statements are presented in Canadian Dollars (CAD\$) and have been rounded to the nearest thousand (CAD\$’000) except where otherwise indicated.

The Board has reviewed the accounting policies set out below, which have been applied consistently, and considers them to be the most appropriate to the Group’s business activities.

#### **Presentation and functional currency**

The presentation currency of the Group is the Canadian dollar (“CAD\$”).

Functional currency is the currency of the primary economic environment in which a company operates. The functional currency of the Group’s subsidiaries are; United States (“US\$”) dollars for the subsidiaries in Tunisia, Dubai, British Virgin Islands (including Azerbaijan operations) and Democratic Republic of Congo, Euros (“EUR”) for the subsidiary in Italy, Sterling (“GBP”) for the subsidiary in the United Kingdom, Swiss Francs (“CHF”) for the subsidiary in Switzerland and Norwegian Krone (“NOK”) for the subsidiary in Norway.

The functional currency is determined by the Directors by looking at a number of relevant factors including the currency in which Group entities usually generate and spend cash and in which business transactions are normally denominated.

All of the transactions that are not in the functional currency are treated as foreign and indicate currency transactions.

The factors that have determined the adoption of the CAD \$ as presentation currency include:

- mainly affects the prices at which the goods or services are consolidated;
- Canada is the country whose regulations, market conditions and competitive forces mainly affect the pricing policy of the entity;
- influences the costs and expenses of the entity;
- the funds are usually generated in that currency; and
- the receipts from operating activities are retained in that currency.

### **Going concern**

These financial statements have been prepared on a going concern basis which presumes that the Group will continue its operations in the normal course of business for the foreseeable future. In assessing whether going concern assumption is appropriate, the Directors have taken into account all relevant available information about the current and future position of the Group. As part of their assessment, the Directors have also taken into account the ability to raise additional funding whilst maintaining sufficient cash resources to meet all commitments.

The Directors have reviewed the cash flow forecasts prepared by management up to and including August 2022, which are prepared on the basis that the Group continues to hold title to the African oil and gas asset and which takes into account the fund raises completed post year end, as well as loan repayments which fall due within 12 months of the date of the signing of the financial statements. The cashflow forecasts also include the investments in respect of well interventions in Tunisia, which the Group believe will be covered by a combination of funding generated by operations, funds raised post year end, funds to be received from the national oil company of the Republic of the Congo (SNPC), as well as further planned fund raises within the going concern period. The Directors believe that the planned fund raises via the various sources of capital available to the Group will be successful. The Group's ability to raise funds has been demonstrated in the year ended March 31, 2021. However, as at the date of approval of the financial statements, these funds have not been secured. At present the Group believes that there should be no significant material disruption to its operations from COVID-19 in the near term, but the Board continues to monitor these risks and the Group's business continuity plans.

Having prepared cash flow forecasts based on current and expected future resources, the Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group will continue to have adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the financial statements. The financial statements do not include the adjustments that would be required should the going concern basis of preparation no longer be appropriate.

The Directors have made reference to going concern, because they consider that there is a material uncertainty, relating to the financing/restructuring of the loan/bond repayment and the financing of the development plans, which may cast significant doubt over the going concern basis of preparation

**New standards and interpretations**

**a. Adoption of new and revised standards**

The following IFRSs or IFRIC interpretations are those that were effective for the first time for the financial year beginning April 1, 2020 and relevant to the entity:

STANDARD	CHANGE
<i>Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions</i>	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.
<i>IFRS 3 Business Combinations</i>	<p><i>Definition of Business:</i> The amendments:</p> <ul style="list-style-type: none"> <li>• confirmed that a business must include inputs and a process, and clarified that: <ul style="list-style-type: none"> <li>▪ the process must be substantive; and</li> <li>▪ the inputs and process must together significantly contribute to creating outputs.</li> </ul> </li> <li>• narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and</li> <li>• added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.</li> </ul>
<i>IFRS 7 Financial Instruments Disclosures, IFRS 9 Financial Instruments &amp; IAS 39 Financial Instruments: Recognition and Measurement</i>	<p><i>Interest Rate Benchmark Reform:</i> The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.</p> <ul style="list-style-type: none"> <li>• The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform.</li> <li>▪ In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.</li> </ul>
<i>IAS 1 Presentation of Financial Statements</i>	<i>Definition of Material:</i> The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.



**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	<i>Definition of Material:</i> The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.
<i>References to the Conceptual Framework</i>	<p>The revised Conceptual Framework was published in March 2018. Together with the publication, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards.</p> <p>The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.</p>

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

**b. New standards and interpretations in issue but not yet effective**

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

***Standards Issued and Effective on or after 1 January 2022***

STANDARD	CHANGE
IFRS 17 <i>Insurance Contracts</i>	<p>IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS.</p> <p>This standard replaces IFRS 4 – Insurance contracts. The key principles in IFRS 17 are that an entity:</p> <ul style="list-style-type: none"> <li>a) identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain, future event (the insured event) adversely affects the policyholder.</li> <li>b) separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.</li> <li>c) divides the contracts into groups it will recognise and measure.</li> <li>d) recognises and measures groups of insurance contracts at a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all the available information about the fulfilment cash flows in a way that is consistent with observable market information plus (if this value is a liability) or minus (if this value is an asset) an amount representing the unearned profit in the group of contracts (the contractual service margin);</li> <li>e) recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk, if a group of contracts is or becomes loss-making,</li> </ul>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

	<p>an entity recognises the loss immediately.</p> <p>f) presents separately insurance revenue, insurance service expenses and insurance finance income or expenses.</p> <p>g) discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. To do this, an entity discloses qualitative and quantitative information about:</p> <p>h) the amounts recognised in its financial statements from insurance contracts.</p> <p>i) the significant judgements, and changes in those judgements, made when applying the Standard; and</p> <p>j) the nature and extent of the risks from contracts within the scope of this Standard.</p>
--	---

***Narrow Scope Amendments Effective on or after 1 January 2022***

STANDARD	CHANGE
IAS 1 <i>Presentation of Financial Statements</i>	<i>Classification of Liabilities as Current or Non-current:</i> Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**3. Significant accounting policies**

**Consolidation**

The following entities have been consolidated within the Group's financial statements:

<i><b>Name</b></i>	<i><b>Country of incorporation and place of business</b></i>	<i><b>Proportion of ownership interest</b></i>	<i><b>Principal activity</b></i>
Canoel Italia S.r.l. (1)	Genova, Italy	98.6%	Gas, electricity and condensate production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Argentina	100%	Not trading
Zenith Aran Oil Company Limited	British Virgin Islands	100%	Oil production
Aran Oil Operating Company Limited	British Virgin Islands	80% owned subsidiary of Zenith Aran Oil Company Limited	Oil production
Zenith Energy (O&G) Ltd	United Kingdom	100%	Administrative services
Zena Drilling Limited	Incorporated in UAE Place of business: Azerbaijan	100%	Oil and gas drilling
Altasol SA	Switzerland	100%	Oil trading
Zenith Norway AS (2)	Norway	100%	Holding Company
Anglo African Oil & Gas Congo S.A.S. (3)	Republic of the Congo	100%	Oil production
Zenith Energy Africa Holdings (4)	United Kingdom	100%	Holding Company
Zenith Energy Africa Ltd (4)	United Kingdom	100% on behalf of Zenith Energy Holdings	Holding Company
Ecumed Petroleum Zarzis Ltd	Tunisia	100% on behalf of Zenith Energy Africa Ltd	Oil production

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

- (1) Zenith Energy Ltd. has 100% control over Canoe Italia S.r.l. The Group granted 1.4% to the Director managing the Italian subsidiary in order to limit the risk of any liability to that entity. Therefore, no non-controlling interest arises from the consolidation of this subsidiary.
- (2) On January 30, 2020, the Company announced the establishment of its fully owned Norwegian subsidiary, Zenith Energy AS ("Zenith Norway"), to be used as a vehicle for intended participation in future licensing bids to be organized by the Norwegian Ministry of Petroleum and Energy, as well as to actively pursue the potential acquisition of working interests in mature energy production assets across Northern Europe.
- (3) On January 13, 2020, the Company announced the passing of a resolution by the shareholders of Anglo African Oil & Gas plc to approve the share purchase agreement, signed between the parties on December 27, 2019, for the acquisition of its fully owned subsidiary in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.S.
- (4) On March 15, 2021, the Company announced that Zenith Energy Africa Limited ("ZEAL"), its newly incorporated fully owned subsidiary (controlled on behalf of Zenith Energy Africa Holdings Ltd), has entered into a share purchase agreement ("SPA") with Candax Energy Limited ("Candax") for the acquisition of a 100 percent interest in Candax's fully owned subsidiary in Barbados, Ecumed Petroleum Zarzis Ltd ("EPZ") (the "Acquisition"), which holds a 45% interest in the Ezzaouia Concession ("Ezzaouia").

Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Adjustments are made to the results of subsidiaries to bring the accounting policies used by them, with those used by the Group.

Intercompany balances and transactions are eliminated on consolidation, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

The following entities have not been consolidated within the Group's financial statements because they are considered to be immaterial to the Group:

<i><b>Name</b></i>	<i><b>Country of incorporation and place of business</b></i>	<i><b>Proportion of ownership interest</b></i>	<i><b>Principal activity</b></i>
Leonardo Energy Consulting S.r.l.	Genova, Italy	48%	Dormant
Zenith Energy Congo SA	Republic of the Congo	100%	Dormant
Zenith Energy Netherlands BV	Netherlands	100%	Dormant

#### **Discontinued operations**

A discontinued operation is a component of the entity that represents a separate major line of business or geographical area of operations that has been disposed of, is held for sale or has been abandoned. The Group classifies operations as discontinued based on the criteria within IFRS 5. When an operation is classified as discontinued, the results of discontinued operations are presented separately in the Statement of Comprehensive Income and also reclassifies the equivalent amounts from the comparative amounts in order for the financial statements to be comparable.

#### **Property, plant and equipment**

##### **Development and production expenditures**

Development and production ("D&P") assets include costs incurred in developing commercial reserves and bringing them into production. Items of property and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of D&P assets have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of D&P assets are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognised in profit or loss.

#### **Business combinations**

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, a bargain purchase gain is recognised immediately in the consolidated statement of comprehensive income.

Transaction costs that are incurred in connection with a business combination other than those associated with the issue of debt or equity instruments are expensed as incurred.

Intercompany balances and transactions are eliminated on consolidation, and any unrealised income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

#### **Subsequent costs**

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of property and equipment and work-overs of property and equipment are recognised only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognised in profit or loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of an item of property and equipment are recognised in profit or loss as incurred.

#### **Depletion and depreciation**

The net book value of producing assets are depleted on a field-by-field basis using the unit of production

method with reference to the ratio of production in the year to the related proved and probable reserves, as determined by an independent reserve engineer, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

#### **Impairment**

At the end of each reporting period, the Group reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units (“CGUs”) for the purpose of impairment testing.

If any such indication of impairment exists, the Group makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less costs to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of D&P assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account.

These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognised as an expense in profit or loss.

At the end of each subsequent reporting period, these impairments are assessed for indicators of reversal.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognised for the asset or CGU in prior periods.

A reversal of an impairment loss is recognised in profit or loss.

#### **Decommissioning provision**

The Group recognizes a decommissioning obligation in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning provision is recorded with a corresponding increase in the carrying amount of the related cost center.

Decommissioning provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the unwinding of discount and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the unwinding of discount is recognised as finance expenses. Actual costs

incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash deposits in bank accounts and cash in hand.

#### **Inventory**

Inventory consists of crude oil which is recorded at the lower of cost and net realisable value. The cost of producing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the producing cost, including royalties. Net realisable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

#### **Financial instruments**

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### **Financial assets**

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

#### *Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortized cost using the effective interest method:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

#### *Impairment of financial assets*

The Group applies the expected credit loss model to financial assets measured at amortized cost or at fair value through other comprehensive income. There are no financial assets other than trade receivables.

#### **De-recognition of financial assets**

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

#### **Financial liabilities and equity**

##### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

##### *Financial liabilities*

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

##### *Compound financial instruments*

Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognised as the fair value of the liability without the conversion feature, which is calculated using inputs that fall within level 1 of the fair value hierarchy of IFRS 13. The equity component is recognised as the difference between the fair value of the convertible debt and the fair value of the liability component.

Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortised cost using the effective interest method and accretes up to the principal balance at maturity.



The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognised. If the number of common shares to which the loan can be converted is not fixed then the loan is recorded as a liability with no debt / equity split.

#### **De-recognition of financial liabilities**

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished-i.e.. when the obligation specified in the contract is discharged or cancelled or expires.

#### *Amortized cost and effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

The Group's financial assets were classified as financial assets measured subsequently at amortized cost. The Group's financial liabilities were classified as financial liabilities measured subsequently at amortized cost. The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

#### **Share capital**

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Group's option. Dividends on share capital classified as equity are recognised as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the consolidated income statement as a financial expense.

Incremental costs directly attributable to the issue of common shares are recognised as a deduction from equity.

**Share-based payments**

The cost of providing share-based payments to employees is charged to the statement of comprehensive income (or treated as a share issue cost) over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options, which is determined using the Black Scholes method. The value of the charge is adjusted to reflect expected and actual level of vesting. Charges are not adjusted for market related conditions that are not achieved. Where equity instruments are granted to persons other than Directors or employees the consolidated statement of comprehensive income is charged with the fair value of the related goods or services received.

**Earnings per share**

The Group presents basic and diluted earnings per share for its common shares. Basic earnings per share amounts are calculated by dividing the profit or loss attributable to common shareholders of the Group by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

**Revenue from contracts with customers**

The Group enters into contracts for the sale of oil and gas. Revenue is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards or ownership have been transferred to the customer and collection of the sales price is reasonably assured. The performance obligation is identified to be the delivery of oil and gas to the customer, and the transaction price is allocated to the amount of oil and gas delivered. These criteria for performance obligation are assessed to have occurred once the product has been delivered to the customer.

**Foreign currency translation**

Foreign currency transactions are translated into the respective functional currencies of the Group and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and,
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's exchange difference on translating foreign operations on the statement of comprehensive income and are reported as a separate component of shareholders' equity. These differences are recognised in profit or loss in the period in which the operation is disposed.

**Finance expense**

Finance expense is comprised of interest on debt, accretion of the decommissioning obligation, accretion of convertible notes and other miscellaneous interest charges.

### **Taxation**

Income tax expense is comprised of current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the asset and liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### **Interest-Bearing Loans and Borrowings**

Interest-bearing loans and borrowings are initially recognised at fair value, which equates to the value of proceeds received net of any directly attributable arrangement costs. Subsequent to initial recognition these borrowings are stated at amortised cost using the effective interest rate method.

## **4. Critical accounting estimates and judgements**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions about the future. The relating accounting estimates will by definition, seldom equal to related achieved result. The estimates and judgements that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

### **Going concern**

Management have prepared the financial statements on a going concern basis of accounting which, as stated in note 2, is dependent on the group being able to raise additional funding as required. This is considered to be a critical accounting judgement.

**Property, plant and equipment**

Management reviews the Group's property, plant and equipment annually for impairment indicators.

The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to prices that are based on forward curves and long-term corporate assumptions thereafter, discount rates, that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, which are discussed further on note 11. The carrying value of property, plant and equipment as of March 31, 2021, was CAD\$100,482k (2020 – CAD \$34,305k).

**Proved and probable reserves and contingent resources**

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests.

Proved and probable reserves and contingent resources are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

The Group's reserves are evaluated and reported on by independent reserve engineers at least annually. The engineers issue a Competent Person's Report ("CPR") and the latest version was issued on July 2021 in relation to the Group's Italian and Congolese assets. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgement and interpretation.

**Decommissioning costs**

Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations.

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the Statement of Financial Position date. Provision is made for the estimated cost at the Statement of Financial Position date, using a discounted cash flow methodology and a risk-free rate of return. Details of the Group's decommissioning costs are disclosed in note 22. The carrying value of the decommissioning costs as of March 31, 2021, is CAD \$16,219k (2020 – CAD \$13,543k).

**Provisional fair values used in business combination accounting**

As disclosed in note 6 the Group has applied the provisions within IFRS 3 to use provisional fair values in the business combination accounting in respect of the acquisition of AAOG. Management has elected to recognise the assets and liabilities at their book value, without any adjustment for fair value at the date of acquisition which is considered to be the most prudent approach while an exercise to complete a formal purchase price allocation is undertaken. Once the purchase price allocation has been completed

management will update the provisional accounting to their fair values where there are material differences.

**Recoverability of other receivables**

Trade receivables qualify as financial assets and would be considered impaired if its carrying amount exceeds its recoverable amount. An impairment loss should be regarded as incurred if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition.

**Equity Sharing Agreement (ESA)**

As of March 31, 2020, the Company identified a trade receivable, that could be impaired due to the conditions of the contract.

On February 14, 2020, the Company announced that it has entered into an equity sharing agreement, with a consortium of institutional investors, for a total amount of NOK 9,700k (approximately CAD\$1,389k), by a subscription for 50,000,000 new common shares, an issue price of NOK 0.194 per share.

As at March 31, 2020, the current share price was lower than the benchmark price and the Board made calculations to estimate value of the receivable as of March 31, 2020. It resulted in an impairment of the facility of CAD\$700k. If the share price continues to remain lower than the benchmark price within the contract, further impairments may arise. As at March 31, 2021, The Company considers the impairment still sufficient to cover the price risk and currently further impairments is not requested.

**Congo – receivable from SNPC**

As part of the business combination of AAOG, the Group acquired another receivable due from SNPC, of approximately US\$5.7 million (equivalent to approximately CAD\$8M) as a result of the work conducted to date on the License. Zenith has met with SNPC and expects to obtain the full repayment of the aforementioned amount. In addition, it is expected that the signature bonus of US\$2 million that will become payable should the Group be successful in its tender for a new license will be offset from the receivable which would further demonstrate the recoverability of the amount.

Management has therefore not recognised an impairment in respect of this receivable.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**5. Administrative expenses**

During the year ended March 31, 2021, the Group incurred CAD\$ 16,201k (2020 - CAD\$ 6,991k) of administrative expenses. Furthermore, during the same period the Group incurred CAD\$ 6,374k (2020 - CAD\$ 2,970k) of non-recurring expenses which relate to the cost of raising funds, negotiation costs for the potential acquisition of producing assets, the retranslation of the asset in Congo, the reversal of impairment and share based payments costs, which mostly are non-cash items.

	Year ended	
	March 31, 2021	March 31, 2020
	CAD\$'000	CAD\$'000
Auditors remuneration - audit fees Group	94	161
Accounting and bookkeeping	23	23
Consultancy fees	611	629
Legal	67	45
Office	471	733
Administrative expenses	1,845	255
Foreign exchange loss/(gain)	4,095	(268)
Salaries	2,415	2,018
Travel	206	425
<b>General and administrative expenses</b>	<b>9,827</b>	<b>4,021</b>
<b><u>Non-recurring expenses</u></b>		
Bond issue costs	145	44
Listing costs (Norway and UK)	704	763
Negotiation costs for acquisitions	1,023	870
Reversal of impairment	2,724	-
Share based payments (see note 17)	1,778	174
Impairments from expected from credit losses (see note 14)	-	700
Release of prepaid insurance (see note 12)	-	419
<b>Total non-recurring expenses</b>	<b>6,374</b>	<b>2,970</b>
<b>Total general and administrative expenses</b>	<b>16,201</b>	<b>6,991</b>

The difference in the total amount of general and administrative expenses is due to:

- The decommissioning and impairment of PPE in Congo (CAD\$1,758k), included in administrative expenses,
- The retranslation of the asset in Congo (CAD\$ 4,095k), included in foreign exchange loss/(gain),
- The reversal of impairment (CAD\$2,724),
- The share-based payments (CAD\$1,778), relating to the fair value of the stock option issued during the year.

Net of the above amounts, that are all no-cash items, the total amount of administrative expenses for the year 2021 would be lower than the 2020 comparative one.

## **6. Business combinations**

### **1. Financial year ended March 31, 2021**

On March 15, 2021, the Company announced that Zenith Energy Africa Limited ("ZEAL"), its newly incorporated fully owned subsidiary, has entered into a share purchase agreement ("SPA") with Candax Energy Limited ("Candax") for the acquisition of a 100 percent interest in Candax's fully owned subsidiary in Barbados, Ecumed Petroleum Zarzis Ltd ("EPZ") (the "Acquisition"), which holds a 45% interest in the Ezzaouia Concession ("Ezzaouia").

Pursuant to the terms of the SPA, ZEAL has agreed to acquire 100% of the issued share capital of EPZ for the aggregate amount of US\$150,000, paid by the Company at completion, as well an additional US\$100,000 to be satisfied by the issue of ordinary shares in the share capital of Zenith to be issued within sixty days of completion ("Consideration Shares") and a royalty payable and calculated as US\$0.35 per each barrel of hydrocarbons produced from the Ezzaouia oilfield and allocable to EPZ, with the royalty not being less than an amount of US\$50,000 per annum for a period of ten years.

#### **Acquisition Highlights**

- Ezzaouia is located in onshore Tunisia on the Zarzis peninsula, south of the island of Djerba in the southern Gulf of Gabes.
- First discovered by Marathon Petroleum Corporation in 1986, with production activities starting in 1990 with a peak production being achieved of 35,000 barrels of oil per day in 1991.
- Ezzaouia produces an average of 40 API gravity oil from the Zebbag (Lower Cretaceous) and Mrabatine (Upper Jurassic) formations.
- It is operated by MARETAP, a joint operating company owned in partnership with the national oil company of Tunisia, ETAP (Entreprise Tunisienne d'Activités Pétrolières) on a 50:50 basis, which holds a 55 percent interest in Ezzaouia.
- It produced at a rate of approximately of 551 bopd (approximately 248 bopd net to Zenith) during March 2021
- Approximately 25,000 barrels of oil were held in storage at the acquisition date, with a commercial value of approximately US\$1,250,000.
- 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).
- The Acquisition has certain development obligations during the course of the new 20-year concession including the drilling of a side-track, the drilling of a replacement well and that of a development well.
- On April 19, 2019, the Tunisian State represented by the Ministry of Industry and Small & Medium Enterprises informed ETAP and EPZ that the Comité Consultatif des Hydrocarbures ("CCH") had provided a favourable opinion to the application submitted by ETAP and EPZ for a new 20-year concession to be called "Ezzaouia" (the "New Concession").
- A Convention for the New Concession (the agreed work programme between ETAP and EPZ) has been signed by both parties.
- The New Concession is currently awaiting parliamentary approval.
- Ezzaouia has modern oil treatment and storage facilities with a total field storage capacity of approximately 20,000 barrels of oil.
- MARETAP, the joint operating company, operates an oil storage terminal, connected to Ezzaouia by way of two pipelines (one for gas and one for oil respectively), at the port of Zarzis, with a storage capacity of approximately 200,000 barrels of oil, from which all oil production from Ezzaouia is exported to the international markets.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

The fair values of the assets acquired, the liabilities and contingent liabilities assumed are based on the Net Present Value ("NPV") of future cash flows included in the Competent Persons Report prepared on behalf of the Group by Chapman Petroleum Engineering Ltd. ("Chapman"), a registered Professional Engineer in the Province of Alberta (Canada), permit number P 4201 of the association of Professional Engineers and Geoscientist of Alberta (Canada), as of March 31, 2021.

There was an effective USD\$150,000.00 (CAD \$90,262.00 equivalent) acquisition price. The acquisition has been accounted for as a business combination using the acquisition method of accounting and resulted in a bargain purchase as follows:

**Fair value of net assets acquired CAD\$'000**

Development and production assets (net of taxation and royalties)	88,007
Other assets	4,777
Capital Costs	(42,238)
Decommissioning Obligations	(2,245)
Other liabilities	<u>(12,148)</u>
NPV of the assets	36,153
Other assets acquired	488
Less: Consideration paid	<u>(150)</u>
Gain on business combination	<u>36,491</u>

The activity of the newly-acquired Tunisian subsidiaries are included within note 29 'Operating segments'.

**Development and production (D&P) assets**

The estimated value of the D&P assets acquired was determined using both estimates and an independent reserve evaluation based on oil and gas reserves discounted at 10%.

**Decommissioning provisions**

The fair value of decommissioning obligations assumed was determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the wells and facilities acquired, discounted at a credit adjusted rate.

**DEFERRED CONSIDERATION PAYABLE**

**Capital Costs**

According to the CPR Report, the total capital expenditures of USD\$26,500,000 (USD\$11,700,000 net to the Company) have been estimated for the overall property, which includes a pump repair or replacement for the well EZZ-17 and three wells to be drilled plus some facility upgrades.

**Operating costs**

Operating costs have been estimated to be USD\$4,000,000 per year and an additional USD\$90,000 per well per year (fixed) plus USD\$4.00/STB (variable), based on historical and budget information provided by operator of the property.



**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

<b>DEFERRED CONSIDERATION PAYABLE</b>	<b>March 31, 2021</b> <b>CAD\$'000</b>	<b>March 31, 2020</b> <b>CAD\$'000</b>
<b>Capital costs</b>		
Current portion	2,006	-
Non-Current portion	40,232	-
<b>As of 31 March</b>	<b>42,238</b>	<b>-</b>
Deferred Consideration payable current	2,006	-
Deferred Consideration payable non-current	40,232	-
<b>Total</b>	<b>42,238</b>	<b>-</b>

The deferred consideration liability has been measured at the present value of contracted future cash flows. The value and timing of contracted future cash flows has been included in note 26.

**2. Financial year ended March 31, 2020.**

On December 29, 2019, the Group obtained a controlling interest in Anglo African Oil & Gas Congo S.A.U ("AAOG Congo") from AIM quoted Anglo African Oil & Gas plc (the "Seller") upon signing a conditional share purchase agreement ("SPA"). Management consider that it obtained control over AAOG because the Group was fully funding and controlling the operations, including the application for renewal of the Tilapia licence. At the time of the acquisition, AAOG Congo had a 56 percent majority interest in, and was the operator of, the Tilapia oilfield in the Republic of the Congo. On April 17, 2020, the Group finalised the share purchase agreement with AAOG for the acquisition of a 100 per cent interest in AAOG Congo for total consideration of £200,000 (equivalent to CAD\$351k).

This was the Company's first acquisition in Africa as part of its new African development strategy targeting oil & gas development, production and exploration opportunities in the continent.

The Group has consolidated the net assets and operations of AAOG from December 29, 2019, the date on which it obtained control. The Group has recognised a gain on bargain purchase in the statement of comprehensive income, as shown in the table below.

	<b>March 31, 2020</b> <b>CAD\$'000</b>
Cash consideration	351
Provisional fair value of net assets acquired on business combination	(20,462)
<b>Gain on business combination</b>	<b>(20,111)</b>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

**Provisional fair value of net assets acquired**

	Book values	Adjustments	Fair value
	CAD\$'000	CAD\$'000	CAD\$'000
Property, plant and equipment	20,184	-	20,184
Other net assets	5,839	-	5,839
Decommissioning Obligations	(5,561)	-	(5,561)
Provisional fair value of net assets acquired on business combination	20,462	-	20,462

---

During the year ended March 31, 2021, the local Congolese, auditors persisting the non-assignment of the Tilapia licence e renewal, decided to impair the asset in Congo. As a result an impairment of CAD\$18.882M was recognised in the Profit and Loss.

**Summarised income statement**

	Post-acquisition	Full year
	CAD\$'000	CAD\$'000
Revenue	94	544
Loss after tax	(3,199)	(1,704)

---

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**7. Staff cost**

**(a) Employee compensation cost**

During the year the Group had an average of 59 (2020: 192) full time employees based in its offices in London in the UK, Baku in Azerbaijan, Pointe Noire in Congo, Tunis (Tunisia) and Genoa in Italy.

The following table details the amounts of total employee compensation included in the consolidated statement of comprehensive income:

	March 31, 2021	March 31, 2020
	CAD \$'000	CAD \$'000
Operating	161	611
General and administrative	2,415	2,018
Share based payments	1,778	174
<b>Total employee compensation cost</b>	<b>4,354</b>	<b>2,803</b>

**(b) Key management compensation**

Key management personnel are those people having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. The following table summarizes annual compensation and long-term compensation of the Group's "Named Executive Officers" for the two most recently completed financial years that ended on March 31, 2020. The named executive officers equate to key management personnel:

Name	Year <sup>(2)</sup>	Short term employee benefit CAD \$'000	Other short-term benefits CAD \$'000	Other long-term benefits CAD \$'000	Share based payments CAD \$'000	Other benefits CAD \$'000	Total CAD \$'000
Andrea Cattaneo <sup>(1)</sup>	2020	567	-	-	-	724	1,291
	2021	564	-	-	-	130	694
Luigi Regis Milano <sup>(2)</sup>	2020	61	-	-	-	31	92
	2021	30	-	-	-	-	30
Jose Ramon Lopez-Portillo	2020	-	-	-	-	31	31
	2021	-	-	-	-	-	-
Dario Ezio Sodero <sup>(3)</sup>	2020	19	-	-	-	31	50
	2021	3	-	-	-	-	3
Erik Larre	2020	-	-	-	-	-	-
	2021	-	-	-	-	-	-
Sergey Borovskiy	2020	-	-	-	-	31	31
	2021	-	-	-	-	-	-

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

Name	Year <sup>(2)</sup>	Short term employee benefit CAD \$'000	Other short-term benefits CAD \$'000	Other long-term benefits CAD \$'000	Share based payments CAD \$'000	Other benefits CAD \$'000	Total CAD \$'000
Luca <sup>(4)</sup>	2020	231	-	-	-	38	269
Benedetto	2021	228	-	-	-	4	232

**Notes:**

1. Andrea Cattaneo was appointed President and Chief Executive Officer effective 01 January 2009. As proposed by the Compensation Committee, Mr. Cattaneo's annual consulting fee payment is approximately £210k (CAD \$364k), payable in equal monthly instalments, plus an annual bonus compensation of CAD\$200k from the parent Company.

In addition, Andrea Cattaneo also received other benefits for the year ended March 31, 2021, of CAD\$130k for health insurance and accommodation.

2. Mr. Luigi Regis Milano had a yearly compensation of CAD\$30k (Euro 20k equivalent) from subsidiary undertakings for the year ended March 31, 2021

3. Mr. Sodero received a fee for professional consulting services of approximately CAD\$3k during the year ended March 31, 2021.

4. Mr. Luca Benedetto was appointed as Chief Financial Officer from April 2017 and received compensation of CAD\$166k from the parent Company and CAD\$62k from subsidiary undertakings, and other benefits for CAD\$4k for health insurance, during the year ended March 31, 2021.

**8. Other gains and losses**

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Interest and debt waived	-	1,425
Impairment of Property, plant and equipment	(18,655)	-
Decommissioning provision written back	5,189	-
	(13,466)	1,425

Other gains and losses in 2020 represent the credit recognised in profit or loss in respect of loans which were settled for an amount lower than the carrying value during the year 2020. See note 19(a) for further details.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**9. Finance expense**

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Interest expense	1,082	884
Accretion of decommissioning provision	369	434
Effective interest on financial liabilities held at amortised cost	-	424
	<b>1,451</b>	<b>1,742</b>

**10. Taxation**

	2021 CAD \$'000	2020 CAD \$'000
Current tax	(3)	(4)
Deferred tax	-	-
<b>Total tax charge for the year</b>	<b>(3)</b>	<b>(4)</b>

The difference between tax expense for the year and expected income taxes based on the statutory tax rate arises as follows:

	2021 CAD \$'000	2020 CAD \$'000
Profit / (Loss) before taxation	3,525	(570,305)
Expected tax at 27%	952	(153,982)
Differences on tax rates attributable to other jurisdictions	(2,869)	39,942
Non-deductible expenses	(7,782)	110,045
Changes in enacted rates and other	237	-
Temporary differences	7,356	(108,238)
Tax assets carried forward	2,103	112,229
<b>Tax charge / (credit)</b>	<b>(3)</b>	<b>(4)</b>

The tax charge for the year ended March 31, 2021, comprised CAD \$3k (2020 – CAD \$4k) of current tax expense and CAD \$Nil deferred tax expense (2020 – CAD \$Nil deferred tax expense).

Recognised deferred tax liabilities are attributable to the following:

	2021 CAD \$'000	2020 CAD \$'000
Property and equipment	(14,211)	(2,109)
Decommissioning obligations	3,649	1,751
Non-capital loss carryforward	10,562	358
Acquisition of Canoel Italia S.r.l.	(2,398)	-
<b>Recognised deferred tax liabilities</b>	<b>(2,398)</b>	<b>-</b>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

Deferred tax assets have not been recognised in respect of the following temporary differences as it is not considered probable that sufficient taxable income will allow the deferred tax assets to be utilised and recovered:

	<b>March 31, 2021</b>	<b>March 31, 2020</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
Property and equipment	10,393	9,218
Non-capital loss carryforwards	670,725	607,361
Share issuance costs	836	603
Decommissioning obligations	2,395	1,827
Capital losses	2,391	1,467
Other	76	76
<b>Unrecognised deferred tax assets</b>	<b>686,816</b>	<b>620,522</b>

As at March 31, 2021, the Group has accumulated non-capital losses totaling CAD \$666,287k (2020 - CAD \$607,273k) which expire in varying amounts between 2022 and 2041 and CAD \$4,451k (2020 - CAD \$2,295k) of non-capital losses with no expiry date.

**11. Property, plant and equipment**

	<b>D&amp;P Assets</b>
	<b>CAD \$'000</b>
<b>Carrying amount at April 1, 2019</b>	<b>1,079,639</b>
Additions	1,347
Acquired on business combination (see note 6)	20,184
Depletion and depreciation	(846)
Impairment – Discontinued operations (note 21)	(1,065,075)
Other impairment charges	(615)
Foreign exchange differences	(329)
<b>Carrying amount at March 31, 2020</b>	<b>34,305</b>
Additions	52
Acquired on business combination (see note 6)	88,007
Depletion and depreciation	(790)
Impairment	(18,822)
Foreign exchange differences	(2,270)
<b>Carrying amount at March 31, 2021</b>	<b>100,482</b>

**Impairment test for property, plant and equipment**

As of March 31, 2021, a review was undertaken of the carrying amounts of property, plant and equipment to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss.

As there is no readily available market for the Group's oil and gas properties, fair value is derived as the net present value of the estimated future cash flows arising from the continued use of the assets, incorporating assumptions that a typical market participant would take into account. The value in use of an oil and gas property is generally lower than its Fair Value Less Costs of Disposal ('FVLCD') as value in use reflects only those cash flows expected to be derived from the asset in its current condition. FVLCD includes appraisal and development expenditure that a market participant would consider likely to enhance the productive capacity of an asset and optimize future cash flows. Consequently, the Group determines recoverable amount based on FVLCD using a Discounted Cash Flow ('DCF') methodology.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

The DCF was derived by estimating discounted after-tax cash flows for each CGU based on estimates that a typical market participant would use in valuing such assets. The impairment tests compared the recoverable amount of the respective CGUs noted below to the respective carrying values of their associated assets. The estimates of FVLCD meet the definition of level three fair value measurements as they are determined from unobservable inputs.

Italian Cash Generating Unit

Key assumptions:

- **Production profiles:** these were based on the latest available information from management.
- **Capital and operating costs:** these were based on the current operating and capital costs in Italy.
- **Gas price:** An average 2021 gas price of \$5.366/Mscf based on information from the World Bank European gas price forecast and information provided by management.
- **Discount rate:** The estimated fair value less costs to sell of the Italian CGU was based on 15% (2020 – 15%). This was based on a Weighted Average Cost of Capital analysis consistent with that used in previous impairment reviews.

Congo Cash Generating Unit

The assets in Congo were acquired during the last quarter of the year. The carrying amount is that of the audited financial statements as at March 31, 2021. Management is still waiting to receive news on the renewal of the license. It therefore does not consider that an assessment of impairment losses is required at this time.

The Group controlled the local audit results, the balance sheet amounts and asset register correspondence, checking the historical amounts and the related depreciations, determining the carrying value of the Congolese subsidiary plant and equipment, acquired as a business combination.

During the year ended March 31, 2021, the local Congolese, auditors persisting the non-assignment of the Tilapia licence e renewal, decided to impair the asset in Congo. As a result an impairment of CAD\$18.882M was recognised in the Profit and Loss.

Tunisia Cash Generating Unit

The asset in Tunisia was acquired during the last quarter of the year. The carrying amount is that of the audited financial statements as of March 31, 2021.

The Group controlled the local audit results, the balance sheet amounts and asset register correspondence, checking the historical amounts and the related depreciation, determining the carrying value of the Congolese subsidiary plant and equipment, acquired as a business combination.

The Group recognised the business acquisition calculation result and it considers that the field infrastructure, geological data and associated equipment that are owned by the Group in Tunisia, as of March 31, 2021, had a fair value amount not less than the carrying amount recoverable at the same date. As a result, no impairment was recognised in the year ended March 31, 2021 (2020 - N/A) in the consolidated statement of comprehensive income.

Further, the Company commissioned a Competent Person's Report ("CPR") for the Tunisian licence in compliance with Canadian securities laws, specifically the COGE Handbook and National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*. The fair value included in the CPR exceeds the

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

carrying value which also supports the Group's position that no impairment is required. The field estimates of the reserves held can be found at [www.zenithenergy.com](http://www.zenithenergy.com).

**12. Non-current financial assets held at amortised cost**

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Other assets acquired on business combination	12	13
	<b>12</b>	<b>13</b>

**13. Inventory**

As of March 31, 2021, inventory consists of CAD \$1,070k (2020 – CAD \$14k) of crude oil that has been produced but not yet sold, and CAD \$37k of materials (2020 – CAD \$785k) . The amount of inventory recognised in the statement of comprehensive income is CAD \$308k (2020 - CAD \$167k).

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Congo	-	14
Congo - materials	-	765
Dubai – materials	-	12
Italy – materials	8	8
Tunisia	1,057	-
Tunisia - materials	1,604	-
	<b>2,669</b>	<b>799</b>

**14. Trade and other receivables**

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Trade receivables	1,803	2,692
Other receivables	12,839	11,694
Directors' loan account	-	360
<b>Total trade and other receivables</b>	<b>14,642</b>	<b>14,746</b>

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The Group's customer base is of a similar bracket and share the same characteristics, as such these have been treated as one population. The Group's customers are all State customers, therefore, the lifetime expected losses are considered to be CAD\$ nil.

In respect of other receivables, the Group has recognised an expected credit loss of CAD\$ nil (2020: CAD\$700k) on a specific contract known as an equity sharing agreement.



**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**15. Change in working capital**

	March 31, 2021	March 31, 2020
	CAD \$'000	CAD \$'000
Trade and other receivables	57	(242)
Inventory	791	(136)
Prepaid expenses	48	(46)
Prepaid property and equipment insurance	-	(422)
Trade and other payables	1,944	1,026
<b>Total change in working capital</b>	<b>2,840</b>	<b>180</b>

**16. Share Capital**

Zenith is authorised to issue an unlimited number of Common Shares, of which 586,816,410 were issued at no par value and fully paid during the FY ended March 31, 2021 (2020 – 316,645,857). All Common Shares have the right to vote and the right to receive dividends. Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of these Financial Statements. The Directors of the Group may by resolution fix the rights, privileges, restrictions and conditions of the preferred shares of each series.

Following the issue of the new Ordinary Shares, the Company had 1,163,889,331 common shares in issue and admitted to trading on the Merkur Market of the Oslo Bors, as of March 31, 2021.

As of the same date, Zenith had 313,400,824 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange.

Issued Description	Number of common shares	Amount CAD \$'000
<b>Balance – 01 April 2019</b>	<b>260,427,064</b>	<b>28,866</b>
Non-brokered unit private placement (i)	20,000,000	1,000
Finder's fee	-	(40)
Non-brokered unit private placement	17,647,059	794
Finder's fee	-	(63)
Non-brokered unit private placement (ii)	14,334,602	702
Finder's fee	-	(42)
<b>Balance – 30 June 2019</b>	<b>312,408,725</b>	<b>31,217</b>
Exercise of stock option (iii)	622,407	75
Exercise of stock option (iv)	688,797	83
Non-brokered unit private placement (v)	47,812,500	1,913
Finder's fee	-	(34)
Settlement of debts (vi)	6,589,678	303
<b>Balance – 30 September 2019</b>	<b>368,122,107</b>	<b>33,557</b>
Settlement of debts (vii)	11,421,402	445
Non-brokered unit private placement (viii)	37,000,000	1,857
Finder's fee	-	(97)
Non-brokered unit private placement (ix)	35,000,000	1,124
<b>Balance – 31 December 2019</b>	<b>451,543,509</b>	<b>36,886</b>
Non-brokered unit private placement (x)	55,529,412	1,610

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

Non-brokered unit private placement (xi)	9,000,000	232
Equity sharing agreement (xii)	50,000,000	1,389
Non-brokered unit private placement (xiii)	11,000,000	283
<b>Balance – 31 March 2020</b>	<b>577,072,921</b>	<b>40,400</b>
Non-brokered unit private placement (xiv)	75,000,000	907
Finder's fee		(4)
Non-brokered unit private placement (xv)	60,000,000	900
Non-brokered unit private placement (xvi)	80,000,000	1,339
<b>Balance – 30 June 2020</b>	<b>792,072,921</b>	<b>43,542</b>
Non-brokered unit private placement (xvii)	60,000,000	467
Non-brokered unit private placement (xviii)	90,000,000	1,060
Non-brokered unit private placement (xix)	100,000,000	637
<b>Balance – 30 September 2020</b>	<b>1,042,072,921</b>	<b>45,706</b>
<b>Balance – 31 December 2020</b>	<b>1,042,072,921</b>	<b>45,706</b>
Exercise of warrants (xx)	28,571,429	637
Settlement of debt (xxi)	1,816,410	40
Exercise of warrants (xxii)	16,428,571	363
Non-brokered unit private placement (xxiii)	75,000,000	1,271
<b>Balance – 31 March 2021</b>	<b>1,163,889,331</b>	<b>48,017</b>

- i) On April 2, 2019, the Group announced that it had completed two offerings with a consortium of private and institutional investors and raised an aggregate total amount of approximately £1,020k (approximately CAD\$1,794k).

Canadian Financing

Zenith issued a total of 20,000,000 common shares of no-par value in the capital of the Group ("Common Shares") at a price of CAD\$0.05 in connection with the Canadian Financing to raise gross proceeds of CAD\$1,000k (approximately £570k). The Company also paid related Issue costs for CAD\$40k.

UK Financing

Zenith issued a total of 17,647,059 Common Shares of no-par value in the capital of the Group at a price of £0.0255 (approximately CAD\$0.045) in connection with the UK Financing and raised gross proceeds of £450k (approximately CAD\$794k). The Company also paid related Issue costs for CAD\$63k.

- ii) On May 3, 2019, the Group announced that it had completed a placing of new common shares of no-par value in the capital of the Group ("Common Shares") in the United Kingdom (the "Financing").

Zenith issued a total of 14,334,602 Common Shares at a price of £0.028 (approximately CAD\$0.049) in connection with the Financing to raise gross proceeds of £401k (approximately CAD\$702k). The Company also paid related Issue costs for CAD\$42k.

- iii) On July 3, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

- exercised stock options to acquire 622,407 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.
- iv) On July 4, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options to acquire 688,797 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.
  - v) On August 2, 2019, the Company completed a placing in Canada issuing a total of 47,812,500 Common Shares, at a price of CAD\$0.04 per unit, consisting of one common share of no par value in the capital of the Company ("**Common Shares**") and one full common share purchase warrant ("**Warrants**"), exercisable within 12 months at an exercise price of CAD\$0.10, raising gross proceeds of CAD\$1,912,500 (approximately £1,195,000 or NOK 12,856,000). The Company paid Issue costs for CAD\$34k.
  - vi) On September 17, 2019, the Company has agreed to issue 6,589,678 common shares at an average price of CAD\$0.05 per common share, to settle debts of CAD\$303k owed by the Company.
  - vii) On October 24, 2019, the Company announced that it had received three Conversion Notices ("**Conversion**") from the consortium of lenders (the "**Lenders**") for the US\$1,500,000 Convertible Loan Facility ("**Convertible Loan**") announced on September 5, 2018. A total of 11,421,402 Conversion Shares, equivalent to a total amount of US\$340,000, were issued.
  - viii) On November 1, 2019, the Company announced the fully closing of the private placing on the Merkur Market of the Oslo Børs. The aggregate number of common shares issued as part of the private placement was 37,000,000 and the private placement was completed at a subscription price of NOK 0.35 per share (£0.03 or CAD\$0.02). The Company also paid Issue costs for CAD\$97k.
  - ix) On December 17, 2019, the Company announced a Private Placement on the Merkur Market of the Oslo Børs. The Company has successfully raised gross proceeds of NOK 7,700,000 (approximately £638,000 or CAD\$1,123,430) to subscribe for 35,000,000 common shares of no-par value in the capital of the Company ("**New Common Shares**") at a price of NOK 0.22 per New Common Share (approximately £0.02 or CAD\$0.03)
  - x) On January 29, 2020, the Company successfully raised gross proceeds of NOK 11,105,882 (approximately £935,000 or CAD\$1,610,000) to subscribe for 55,529,412 common shares of no-par value in the capital of the Company at a price of NOK 0.20 per New Common Share (approximately £0.02 or CAD\$0.03)
  - xi) On February 14, 2020, the Company completed an offering in the United Kingdom with a significant existing institutional shareholder, as well as a selection of high net-worth private investors, to issue 9,000,000 new common shares in the capital of the company to raise gross proceeds of £135,000 (approximately CAD\$232,000). The issue price of the UK Financing is £0.015, representing a premium of 5.26% over the closing mid-market price of Zenith's common shares admitted to trading on the London Stock Exchange on February 13, 2020.
  - xii) On February 14, 2020, the Company announced that it has entered into an equity sharing agreement, with a consortium of institutional investors, for a total amount of NOK 9,700,000 (approximately £810,000 or US\$1,051,000), by a subscription for 50,000,000 new common shares, an issue price of NOK 0.194 per share, (approximately £0.02 or CAD\$0.03)

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

- xiii) On February 17, 2020, the Company issued 11,000,000 new common shares in Norway at a price of NOK 0.18. to raise gross proceeds of NOK 1,980,000 (approximately CAD\$284,000 or £165,000)
- xiv) On April 8, 2020, the Company completed an offering in the United Kingdom, and an offering in Norway (the "Financings"). Zenith raised an aggregate total amount of approximately £525k or NOK 6,750k or CAD\$921k, issuing 75,000,000 new Common shares at a price of £0.007 (0.7 pence), CAD\$0.012 or NOK 0.09.
- xv) On April 30, 2020, the Company announced the issue of 60,000,000 new common shares, raising gross proceeds of approximately £540k or NOK 6,600k or CAD\$900k (the "Private Placement"). The issue price of the new common shares issued under the Private Placement is £0.009 (0.90 pence), NOK0.11 or CAD\$0.015.
- xvi) On June 9, 2020, the Company announced that it had completed a private placement in Norway, to raise an aggregate total amount of approximately NOK 7,600k (approximately £645k or CAD\$1,098k), issuing a total of 80,000,000 common shares of no-par value in the capital of the Company at an issue price of NOK 0.095, equivalent to approximately £0.008 (0.8 pence) or CAD\$0.013.
- xvii) On July 10, 2020, the Company announced that it has completed a private placement in Norway, to raise an aggregate total amount of approximately NOK 3,120k (approximately £260k or CAD\$449k), issuing a total of 60,000,000 common shares of no-par value in the capital of the Company at an issue price of NOK 0.08, equivalent to approximately £0.007 (0.7 pence) or CAD\$0.012 per share.
- xviii) On August 6, 2020, the Company announced that it has completed a private placement in Norway, to raise an aggregate total amount of approximately NOK 7,200k (approximately £604k or CAD\$1,060k). The issue price of the Financing was NOK 0.08 per common share of no-par value in the capital of the Company ("Common Shares"), equivalent to approximately £0.007 (0.7 pence) or CAD\$0.012.  
Zenith has issued a total of 90,000,000 new Common Share units ("Units"). Each Unit comprises 1 Common Share and half a warrant. The Company therefore issued 90,000,000 new Common Shares in connection with the Financing and 45,000,000 Common Share purchase warrants (the "Warrants") exercisable within 12 months at an exercise price of NOK 0.15 (approximately CAD\$0.022).
- xix) On September 25, 2020, the Company announced that it has completed a private placement in Norway, to raise an aggregate total amount of approximately NOK 4,520k (approximately £409k or CAD\$ 635k), issuing a total of 100,000,000 common shares of no-par value in the capital of the Company at an issue price of NOK 0.045, equivalent to approximately £0.004 (0.4 pence) or CAD\$0.01 per share.
- xx) On January 6, 2021, the Company announced that an investor in the Company has exercised warrants to acquire a total of 28,571,429 new common shares of no-par value (the "Common Shares") in the capital of the Company with an exercise price of NOK 0.15 (equivalent to approximately £0.013) for a total consideration of NOK 4,285k NOK (approximately £371k or CAD\$641k).
- xxi) On February 24, 2021, Zenith issued a total of 1,816,410 new common shares ("Debt Settlement Shares") at a price of NOK 0.145 (equivalent to approximately £0.0124) to settle an amount owed by the Company to a creditor wishing to be paid in equity. The amount settled was NOK 263k (approximately£22k or CAD\$39k).

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

- xxii) On March 19, 2021, an investor in the Company exercised warrants to acquire a total of 16,428,571 new common shares of no-par value the capital of the Company with an exercise price of NOK 0.15 (equivalent to approximately £0.013) for a total consideration of 2,464,286 NOK (approximately £209,600 or CAD\$362,318)
- xxiii) On March 22, 2021, the Company announced that it has completed a private placement in Norway, to raise an aggregate total amount of approximately NOK 8,625k (approximately £725k or EUR 846k or CAD\$1,258k), issuing a total of 75,000,000 common shares of no-par value in the capital of the Company at an issue price of NOK 0.115, equivalent to approximately £0.01 (1 pence) or CAD\$0.02 per share.

Zenith Energy Ltd.  
Annual Report & Financial Statements  
For the Year Ended March 31, 2021

17. Warrants and options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD\$'000
<b>Balance – April 1, 2019</b>	<b>11,100,000</b>	<b>19,796,378</b>	<b>0.12</b>	<b>1,147</b>
Warrants issued	-	54,290,234	0.10	174
Options exercised	-1,311,204	-	0.12	(116)
Options expired	-703,571	-	0.12	(62)
Warrants expired	-	-18,422,628	0.14	(133)
<b>Balance – March 31, 2020</b>	<b>9,085,225</b>	<b>55,663,984</b>	<b>0.12</b>	<b>1,010</b>
Warrants issued	-	215,000,000	0.03	480
Warrants exercised	-	-45,000,000	0.02	(49)
Warrants expired	-	-47,812,500	0.10	(111)
Option Issued	95,414,775	-	0.03	1,298
Options fair value	-	-	-	52
Options expired	- 10,182,142	-	0.04	(215)
<b>Balance – March 31, 2021</b>	<b>94,317,858</b>	<b>177,851,484</b>	<b>0.03</b>	<b>2,465</b>

WARRANTS

During the year ended March 31, 2021, the Company issued 215,000,000 warrants (2020 – 54,290,234), and 47,812,500 (2020 - 18,422,628) warrants expired.

The issue of 215,000,000 warrants (2020 – 54,290,234) warrants during the year, originated a fair value amount of CAD\$480k (2020 – CAD\$174k) that was debited as share-based payment, non-cash item cost, in the P&L.

The expiry of 47,812,500 warrants (2020 – 18,422,628) warrants during the year was recognised in the contributed surplus amount of Equity section.

In the financial year ended March 31, 2021, some investors exercised warrants for a total amount of 45,000,000 (2020 – nil).

As of March 31, 2021, the Group had 177,851,484 (2020 – 55,663,984) warrants outstanding (relating to 177,851,484 shares) and exercisable at a weighted average exercise price of CAD\$0.04 per share with a weighted average life remaining of 0.61 years.

There were no warrants in the money as of March 31, 2021.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**OPTIONS**

Grant Date	March 31, 2021		March 31, 2020		Expiry Date
	Number of options	Exercise price per unit CAD\$	Number of options	Exercise price per unit CAD\$	
November 2016	1,100,000	0.10	1,100,000	0.10	November 2021
November 2017	-		500,000	0.18	November 2022
April 2018	6,374,511	0.12	7,485,225	0.12	April 2023
December 2020	41,428,572	0.03			December 2025
January 2021	45,414,775	0.03			January 2026
<b>TOTAL</b>	<b>94,317,858</b>	<b>0.04</b>	<b>9,085,225</b>	<b>0.12</b>	

During the year ended March 31, 2021, the Company issued 95,414,775 stock options (2020 – nil), the options exercised were nil (2020 - 1,311,204) and 10,182,142 (2020 - 703,571) stock options expired.

As of March 31, 2021, the Group had 94,317,858 (2020 – 9,085,225) stock options outstanding (relating to 94,317,858 shares).

There were no options in the money as of March 31, 2021.

**STOCK OPTIONS**

The Group has a stock options plan (the "Plan") for its directors, employees and consultants. The maximum number of shares available under the Plan is limited to 10% of the issued and outstanding common shares at the time of granting options. Granted options are fully vested on the date of grant, at which time all related share-based payment expense is recognised in the consolidated statement of comprehensive income. Share options expire five years from the date of granting.

The table below represent the movement of the options during the FY 2021, and the comparative period 2020.

	Number of options
<b>Balance – April 1 31, 2019</b>	<b>11,100,000</b>
Options exercised	(1,311,204)
Options expired	(703,571)
<b>Balance – March 31, 2020</b>	<b>9,085,225</b>
Options issued	95,414,775
Options expired	(10,182,142)
<b>Balance – March 31, 2021</b>	<b>94,317,858</b>

As of March 31, 2021, the Group had 94,317,858 (2020 – 9,085,225) stock options outstanding (relating to 94,317,858 shares) and exercisable at a weighted average exercise price of CAD\$ 0.04 (2020 – CAD\$ 0.12) per share with a weighted average life remaining of 3.57 years.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

The fair value of the options was calculated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	100%
Expected life	5 years
Dividends	Nil

**Granting of options**

- On December 30, 2020, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 50,000,000 stock options (the "Options"), in accordance with the Company's Stock Option Plan. The Options have an exercise price of NOK 0.20 per Option (approximately £0.017 or CAD\$0.03), a premium of approximately 30% to December 29, 2020's, closing price on the Euronext Growth of the Oslo Stock Exchange. The Options are fully vested and have an expiry date of five years from the date of granting.
- On January 18, 2021, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 45,414,775 stock options (the "Options"), in accordance with the Company's Stock Option Plan. The Options have an exercise price of NOK 0.20 per Option (approximately equivalent to £0.017/CAD\$0.03), a premium of approximately 47% to the last closing price on the Euronext Growth of the Oslo Stock Exchange (15.01.2021). The Options are fully vested and have an expiry date of five years from the date of granting.

**Exercise of options**

- On July 3, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options to acquire 622,407 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.
- On July 4, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options and acquire 688,797 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.

**Expiry of options**

Some Directors, who had been granted share options, left the Group and, as stipulated in the stock option agreement, these options expired upon the elapsing of three months from the date of leaving. During the financial year ended March 31, 2021, 10,182,142 (2020 - nil) stock options expired.



**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**WARRANTS**

Type	Grant Date	Price per unit		Expiry Date
		Number of Warrants	CAD\$	
Warrants	April-18	93,750	0.40	May-21
Warrants	June-18	1,280,000	0.07	June-21
Warrants	August 19	47,812,500	0.10	August 20
Warrants	October-19	6,477,734	0.06	October-22
<b>Total warrants at 31 March 2020</b>		<b>55,663,984</b>		
Warrants	June 18	1,000,000	0.07	June 21
Warrants	June 18	280,000	0.07	June 21
Warrants	April 18	93,750	0.40	May 21
Warrants	October 19	6,477,734	0.06	October 22
Warrants	February 21	85,000,000	0.03	February 22
Warrants	February 21	85,000,000	0.04	February 22
<b>Total warrants at 31 March 2021</b>		<b>177,851,484</b>		

As of March 31, 2021, the Group had 177,851,484 (2020 – 55,663,984) warrants outstanding (relating to 177,851,484 shares) and exercisable at a weighted average exercise price of CAD\$0.04 per share with a weighted average life remaining of 0.61 years.

The fair value of the warrants was calculated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	75-100%
Expected life	2 years
Dividends	Nil

**18. Trade and other payables**

	March 31, 2021	March 31, 2020
	CAD \$'000	CAD \$'000
Trade payables	15,129	16,278
Other payables	5,899	2,554
<b>Total trade and other payables</b>	<b>21,028</b>	<b>18,832</b>

**19. Loans**

Loans	March 31, 2021	March 31, 2020
	CAD \$'000	CAD \$'000
Loan payable - current	4,359	2,210
Loan payable – non-current	920	2,260
<b>Total</b>	<b>5,279</b>	<b>4,470</b>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

	<b>2021</b>	<b>2020</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
<b>Loans – current</b>		
As at 1 April	2,210	3,776
Transfer from non-current	1,033	1,253
Loan receipt	2,445	2,004
Loan waived	-	(584)
Repayments	(1,418)	(4,107)
Foreign exchange	89	(132)
<b>As at 31 March</b>	<b>4,359</b>	<b>2,210</b>

	<b>2021</b>	<b>2020</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
<b>Loans – non current</b>		
As at 1 April	2,260	3,417
Repayments	(380)	-
Conversion to shares	(19)	-
Loan receipt	186	-
Transfer to current	(1,033)	(1,253)
Foreign exchange	(94)	96
<b>As at 31 March</b>	<b>920</b>	<b>2,260</b>

**a) Euro bank debt**

On August 6, 2015, the Group obtained a €220k loan (CAD\$349k) from the GBM Banca of Rome. The loan is unsecured, bears fixed interest at 7% per annum and the final repayment is due on July 2021.

As of March 31, 2021, the principal balance of the loan was €11k (CAD\$16k) (March 31, 2020 - €35k (CAD\$55k)) which is classified as a current liability. As at the date of this document, this loan was totally repaid.

**b) USD \$200,000 General line of credit agreement**

On April 12, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to US\$200k (CAD\$272k). This Credit Agreement bears interest at a rate of 10% per annum. The loan was granted for one-year period and the principal amount of the loan will be paid at the end of the period. The amount of interest is repayable monthly. The loan is guaranteed by the Group. The repayment of the principal amount was extended during the years and, as at the date of this document this facility was totally repaid, as announced by the Company on June 1, 2021.

As of March 31, 2021, the amount of US\$96k (CAD\$122k) (March 31, 2020 - USD\$202k (CAD\$256k)) was classified as a current liability. On June 1, 2021, the Company announced that this liability has now been settled in full.

**c) Swiss loan CHF 837,500**

On March 30, 2017, the Group acquired the Swiss based company Altasol SA, and assumed a loan subscribed for the former owner on December 21, 2015, for the initial amount of CHF838k (CAD\$1,161k). The loan bears interest at a rate of 2.32% per annum. The loan is repayable in anticipated quarterly tranches of CHF13k (plus accrued interest) (CAD\$17k), and the maturity date is July 7, 2022. As of March 31, 2021, the principal balance of the loan was CHF600k (CAD\$801k) (March 31, 2020 - CHF675k (CAD\$993k)).

**d) Convertible loan USD 1,500,000**

On 5 September 2018, the Company entered into a US\$1,500,000 unsecured convertible loan facility with a term of 18 months starting from August 30, 2018. Zenith shall pay interest on the outstanding amount of the convertible loans at the rate of 0% per annum. The Facility includes an initial immediate advance of US\$1,300,000 and a further advance of US\$200,000, to be provided at a later time and only at the discretion of the Lenders.

On January 7, 2019, the Company successfully renegotiated the terms of this unsecured Convertible Loan Facility, that now is also repaid in cash.

On September 17, 2019, a Conversion has been made for a total of 5,343,774 common shares (the "Conversion Shares") at a price of £0.021 per Conversion Share equivalent to a total amount of US\$140,000.

As announced on April 23, 2021, the Company extended the maturity date for this loan that, now is repayable at the end of the year 2021 and following recent repayments, the current liability in relation to the Facility stands at US\$0.6 million.

**e) Convertible loan GBP 1,000,000**

On January 7, 2019, the Company entered into a new unsecured convertible loan facility, for an aggregate total amount of up to £1 million with a consortium of lenders. The loan facility has a term of 24 months and the Company shall pay interest on the outstanding amount of the loan facility at the rate of 8% per annum. The loan facility was repayable on January 15, 2021. In January 2021, the loan repayment terms were amended and now the loan is repayable on January 15, 2022, and the Company repaid the 50% of the outstanding principal amount for £323,747 (approximately CAD\$ 568,000). With certain limitations, the Convertible Loan Notes ("CLNs") will be convertible into Common Shares of the Company. To date, the current liability in relation to the Facility stands at £323,747 (approximately CAD\$ 561,000).

**f) EUR 1,500,000 Credit Line Agreement & Debt Settlement**

On 24 February 2021, the Issuer announced that it has entered into a credit line agreement with a lender, for a period of one year for an amount of up to EUR 1,500,000. The credit line bears interest at a rate of 9 per cent per annum in respect of any amount advanced by the lender. As at the date of this document, the current liability in relation to this Facility stands at EUR 400k (CAD\$595k)

**g) Loan in Tunisia**

On February 5, 2010, Ecumed Petroleum Zarzis, obtained a (3,700,000 TND) loan (CAD\$ 1,787,560 equivalent) from the Union Internationale des Banques "UIB". The loan is unsecured, bears fixed interest at 9.172% per annum and the final repayment is due on September 30, 2021.

As of March 31, 2021, the principal balance of the loan was (3,700,000 TND) (CAD\$ 1,787,560 equivalent) (March 31, 2020 - N/A) which is classified (3,700,000 TND) (CAD\$ 1,787,560 equivalent) as a current liability and nil classified as a non-current liability

**h) SACE/SIMEST Loan in Italy Euro 126,100**

On October 13, 2020, the Group obtained a Euro 126,100 loan from SACE/SIMEST, a parastatal organization that support Italian companies, large companies and SMEs, who wish to build a strong and solid presence in the global market. The loan is guaranteed by the Italian State, and bears fixed interest at 0.0085% per annum and the final repayment is due on August 7, 2026.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

As of March 31, 2021, the amount of Euro 126k (CAD\$187k) (March 31, 2020 – N/A) was classified as a non-current liability.

**i) Overdraft**

The group has an overdrawn balance in one bank account of CAD\$ 1k (March 31, 2020 – CAD\$ nil).

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**20. Non-convertible bonds**

Non-convertible bonds	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Current	4,966	86
Non-current	2,500	4,273
<b>Total</b>	<b>7,466</b>	<b>4,359</b>

Non-convertible bonds	CAD \$'000
<b>Balance – April 1, 2019</b>	<b>4,958</b>
Interest	82
Loan notes	3,058
Bonds in treasury de-recognised	(3,814)
Repayment of bonds	(194)
Foreign exchange	269
<b>Balance – March 31, 2020</b>	<b>4,359</b>
Loan notes	3,154
Interest	100
Repayment of bonds	(147)
Foreign exchange	-
<b>Balance – March 31, 2021</b>	<b>7,466</b>

**Loan Notes**

To avoid the risk of the excessive dilution of the capital, the Company issued two different sets of EMTN (Bond) accruing interest payable semi-annually and listed on European Stock Exchanges.

*a. Zenith 8% EMTN - ISIN AT0000A23S79*

Commencing 11 January 2019, the Issuer issued Loan Notes with the duration of 2 years. The maturity date of the Notes is 20 December 2021, and they carry an interest charge of 8 per cent per annum, payable semi-annually. As at the date of this document, the Issuer sold an aggregate amount of EUR 2,960,000 (CAD\$ 4,572,624) of the loan notes.

The Loan Notes listed on the Third Market (MTF) of the Vienna Stock Exchange ("Wiener Borse AG"). This issuance is part of an approval to list up to EURO 10 million in several tranches. The Notes are governed by Austrian law. The Notes are not convertible into equity of Zenith.

*b. Zenith EMTN Programme up to Euro 25+M*

On January 20, 2020, the Company announced the issuance of the following unsecured, multi-currency Euro Medium Term Notes, governed by Austrian law, at par value (the "Notes"):

- EURO 1,000,000 bearing interest of 10.125 per cent per year (the "EUR-Notes")
- GBP 1,000,000 bearing interest of 10.50 per cent per year (the "GBP-Notes")
- USD 1,000,000 bearing interest of 10.375 per cent per year (the "USD-Notes")
- CHF 1,000,000 bearing interest of 10.00 per cent per year (the "CHF-Notes")

The Notes were issued, and kept in Treasury, under Zenith's EUR 25,000,000 multi-currency Euro Medium Term Notes Programme, as announced by the Company on November 6, 2019, and will be due on January 27, 2024. The Notes were admitted to trading on the Third Market (MTF) of the Vienna Stock Exchange ("**Wiener Borse AG**"). As of March 31, 2021, the Company sold Notes for CAD\$2.5M equivalent, as follows:

Currency	Quantity	CAD\$ equivalent	ISIN	Description
EUR	259,000.000	365,856.75	XS2108546735	ZEEX 10.125 01/27/24 MTN
USD	534,000.000	666,345.33	XS2108546651	ZEEX 10.300 01/27/24 MTN
GBP	928,000.000	1,468,456.03	XS2108546578	ZEEX 10.375 01/27/24 MTN

The issue of the Notes is aligned with the Group's strategy of diversifying its financing towards non-equity dilutive funding to support its successful development.

The EMTN Programme, created with the primary purpose of financing the Company's development activities in Azerbaijan, with the related Prospectus being approved on November 6, 2019. Since its strategic reconfiguration, the Company has been using the EMTN Programme to finance its activities in the Republic of the Congo, Tunisia and Italy. The Company chose the Vienna Stock Exchange as it was viewed as a highly accessible market in terms of simplicity of process and listing costs.

On 25 June 2021, the Company announced that it had fully paid the semi-annual interest in relation to the Notes. The most recent interest payment in relation to the Notes is the third such payment, with previous interest payments having taken place during the months of June and December 2019 and 2020 respectively.

*c. Revolving facility*

On October 18, 2019, the Company entered into a credit line facility with Linear Investments Limited, for the amount of Euro 200,000 (CAD\$ 294k) for a duration of 18 months. The facility is secured by a corresponding EMTN Zenith 8%, 2021 value, and it was renewed for additional 18 months.

**21. Loss from discontinued operations**

The Group has re-focused the geographic area of its activities. On March 2, 2020, the Company announced that, in view of Zenith's strategic focus on pursuing large-scale oil production and development opportunities in Africa, it would return the Contract Rehabilitation Area to SOCAR.

The handover of the Contract Rehabilitation Area ("CRA") was effectively concluded in June 2020. As publicly announced, the Group continued to operate the CRA from March 2020 until June 2020 when the handover of the CRA was completed. The Group achieved a near total reduction of operating expenses in Azerbaijan upon completion of the handover of the Contract Rehabilitation Area.

As per the REDPSA agreement with SOCAR, Zenith does not have to pay any kind of compensation fee as a result of the termination thereof. In addition, there are no decommissioning fees to be borne by Zenith. The Group has received a payment post year end for oil production of approximately US\$508,000 from SOCAR corresponding to material revenues for the months of April, May and part of June 2020.

The costs associated with the termination of the Group's operations in Azerbaijan are approximately USD 0.5 million which are related to the transportation costs due to the relocation of the rig which was previously installed in Azerbaijan to its operations in Congo.

As a result of this decision, the results of the subsidiary in Azerbaijan have been included in the loss from discontinued operations in the statement of comprehensive income and they are comprised as follows:

	<b>2020</b>
	<b>CAD\$'000</b>
Revenue	4,074
Operating expenses	(3,041)
Depletion and depreciation	(1,118)
Administrative expenses	(2,383)
Finance expenses	(61)
Loss from operations in the year	<u>(2,529)</u>
Impairment of property, plant and equipment	(1,065,075)
Impairment of inventories	(747)
Impairment of assets acquired from Zena Drilling	(615)
Write back of deferred consideration payable	483,690
Write back of decommissioning provision	1,790
Write back of well abandonment obligations	60
Write back of deferred tax	2,793
<b>Total</b>	<b><u>(580,633)</u></b>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**22. Decommissioning provision**

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Group's oil and gas properties:

	<b>2021</b>	<b>2020</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
<b>Balance – beginning of year</b>	<b>13,543</b>	<b>9,089</b>
Accretion	369	714
On acquisition of subsidiary (note 6)	8,304	5,561
Eliminated on discontinued operations (Note 21)	-	(1,790)
Provision written back	(5,189)	-
Foreign currency translation	(808)	(31)
<b>Balance – end of year</b>	<b>16,219</b>	<b>13,543</b>

The provision has been made by estimating the decommissioning cost at current prices using existing technology. The following significant weighted average assumptions were used to estimate the decommissioning obligation:

	<b>2021</b>	<b>2020</b>
<b>Italy</b>		
Undiscounted cash flows – uninflated	CAD \$8 million	CAD \$8 million
Undiscounted cash flows - inflated	CAD \$8 million	CAD \$8 million
Risk free rate	3.4%	3.4%
Inflation rate	1.4%	1.4%
Expected timing of cash flows	12.5 years	13.5 years

	<b>2020</b>
<b>Congo</b>	
Undiscounted cash flows – uninflated	CAD \$8.5 million
Undiscounted cash flows - inflated	CAD \$11.5 million
Risk free rate	3%
Inflation rate	1.5%
Expected timing of cash flows	15 years

**Tunisia** **2021**

A - Decommissioning provision recalculation

Description	in USD	Comments
Start current period	01/04/2020	
Anticipated abandonment date	31/12/2033	Minus between, economic and legal end of date (cf. IM.7 impairment test)
Years to abandonment	13.95	
Undiscounted well costs	5,946,000	2019 figures submitted to DGH, while estimation is outdated (2014)
Undiscounted facilities costs	2,050,000	
<b>Total undiscounted obligation</b>	<b>7,996,000</b>	



**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

TND inflation rate (as per the Tunisian Central Bank)	5.00%	
USD inflation rate (as per the submitted assumption to DGH)	2.00%	
<b>Inflation Rate</b>	<b>4.00%</b>	TND share in MARETAP expenses are higher than USD
<b>Inflated obligation</b>	<b>13,819,358</b>	
Discount Rate	2.00%	
<b>Discounted obligation</b>	<b>10,483,721</b>	
<b>EPZ Share in the obligation</b>	<b>4,717,675</b>	This should be recognised as asset against provision as a 1st time recognition

**B - Unwinding interest recalculation**

<b>Interest unwind of the obligation for the period</b>	<b>94,353</b>
---	---------------

The timings of the cash flows depend on the capital expenditure incurred and the development of assets in each concession. Each concession has a license for a set number of years; however, the licenses could be extended for longer periods if the operator incurs capital expenditure and develops the area. The application process starts after a license is not extended or when the reserves of a particular concession have been fully extracted.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**23. Earnings per share**

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Net loss for the year	3,525	(580,633)
Net profit from continuing operations	3,525	10,324
Net loss from discontinued operations	-	(570,309)
Basic weighted average number of shares	983,195	401,617
Potential dilutive effect on shares issuable under warrants	n/a	n/a
Potential diluted weighted average number of shares	n/a	n/a
Net earnings per share – basic and diluted (1) \$	0.004	\$ (1.42)
From continuing operations – basic and diluted \$	0.004	\$ 0.03
From discontinued operations - basic and diluted \$	n/a	\$ (1.45)

<sup>(1)</sup> The Group did not have any in-the-money convertible notes, warrants and stock options during the years ended March 31, 2021 and 2020.

**24. Related party transactions**

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. The related party transactions during the year ended March 31, 2021 and 2020 not disclosed elsewhere in these consolidated financial statements are as follows:

- a) During the year ended March 31, 2021, the Company's Chief Executive Officer and President, Mr. Andrea Cattaneo:

Purchased a total amount of common shares of no-par value in the capital of the Company	
08/04/2020 8,000,000 shares at NOK 0.09	
30/04/2020 5,000,000 shares at NOK 0.11	
24/03/2021 3,500,000 shares at NOK 0.1210	
Total increase during the FY ended March 31, 2020	16,500,000
<b>Balance March 31, 2020</b>	<b>44,984,115</b>
<b>Balance March 31, 2021</b>	<b>61,484,115</b>

- b) Following the aforementioned dealings, as of March 31, 2020, Mr. Cattaneo was directly beneficially interested in a total of 61,484,115 (March 31, 2020 – 44,984,115) Common Shares in the capital of the Company, representing 4.46 per cent of the total issued and outstanding common share capital of the Company.
- c) During the year ended March 31, 2021, Mr. Cattaneo has granted bank guarantees or an average yearly amount of £604,558 (CAD\$ 1,048,000) (the "Guarantees") in favour of the Zenith as listed below:
- (i) Surety guarantee provided on 29/08/2016 in favour of Jui Feng for the total amount of USD 2,185,336.70; subsequently in the month of April 2020 the amount of this Guarantee, fell to

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

USD 180,000 having the Company partially repaid its debt and, from the 6<sup>st</sup> April 2020 the amount of this Guarantee, fell to USD 90,000 having the Company partially repaid, and it went to zero on 30/06/2020 when the Company completed the repayment;

- (ii) Surety guarantee in favour of Rabitabank (Azerbaijan), to support the credit facility of Zenith Aran Oil the 100% owned subsidiary, for the amount of USD 320,000.00;
- (iii) Surety guarantee in favour of Rabitabank (Azerbaijan), to support the credit facility of Zenith Aran Oil the 100% owned subsidiary, for the amount of USD 200,000.00;
- (iv) Surety guarantee provided on 20 December 2019 in favour of a lender, for the total amount of GBP 250,000.00 represented by a financial collateral of no. 6,666,667.00 shares of the price of GBP 0,0225 per each (as of December 2019 quote).

The Board defined the remuneration for Guarantees in favour of Mr. Cattaneo in the measure of 2% of the total guarantees being £12k (equivalent to CAD\$21k), and the associated terms and procedures for the payment, calculated as follows:

Guarantee	From	To	Days	Currency	Original Amount	GBP equivalent	Yearly Rate	Remuneration fee
I	01/04/2020	06/04/2020	6	USD	\$ 180,000	£ 146,052	2%	£ 48
	07/04/2020	30/06/2020	84	USD	\$ 90,000	£ 73,026	2%	£ 336
II	01/04/2020	06/01/2021	281	USD	\$ 320,000	£ 260,000	2%	£ 4,003
III	01/04/2020	06/01/2021	281	USD	\$ 200,000	£ 162,500	2%	£ 2,502
	07/01/2021	31/03/2021	84	USD	\$ 54,000	£ 43,816	2%	£ 202
IV	01/04/2020	31/03/2021	365	£		£ 250,000	2%	£ 5,000
						£ 935,394		£ 12,091

- e) As at March 31, 2021, the Company had to reimburse Mr. Cattaneo for CAD\$15k (2020: overdrawn directors loan account CAD\$ 360k) Mr. Cattaneo paid general, travelling and administrative expenditures for business activities conducted in Africa made on behalf of the Group using personal means.
- f) General Transaction Inc., represented by its Chief Executive Officer and Chairman Mr. Sergey Borovskiy, a Director of the Company, granted Zenith during past years a loan of CAD\$127,878. The maturity date of the loan, plus accrued interest at the yearly rate of 15%, is July 31, 2021. The balance outstanding on March 31, 2021, is CAD\$28,758 (2020 - CAD\$28,758).
- g) On February 17, 2020, Mr. Sergey Borovskiy, a Non-Executive Director of Zenith subscribed for a total of 3,849,289 Norwegian Financing Shares, at a price of NOK 0.18 per share.  
 Following the aforementioned dealing, Mr. Borovskiy is directly beneficially interested in a total of 3,849,289 Common Shares in the capital of the Company.
- h) In the year ended March 31, 2020, Zenith granted Leonardo Energy Consulting S.r.l., an entity where Zenith holds a 48% interest on its share capital, a loan of CAD\$nil (2020 - CAD\$5,393), to develop its activities. The loan is unsecured, interest free and repayable on demand. The balance outstanding on March 31, 2021, is CAD\$24,921 (2020 – CAD\$24,921).

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

- i) During the financial year ended March 31, 2021 the Company paid to Mr., Saadallah Al-Fathy, a former Non-Executive Director of the Group, the amount of GBP 11k (CAD\$19k) relating to Directors compensation granted in past exercises.

**25. Commitments and contingencies**

***Asset Purchase commitments***

The Company acquired the Congolese asset for a consideration of GBP 200,000, that was fully paid in May 2020.

On April 20, 2020, and on September 8, 2020, Zenith entered into two separate conditional acquisitions in Tunisia from KUFPEC and CNPC, two world-renowned oil companies, for their respective working interests in the Sidi El Kilani Concession. Upon completion, conditional upon regulatory approval being granted by the Comité Consultatif des Hydrocarbures ("CCH") of the Republic of Tunisia, it is expected that Zenith will have a daily production ranging between 250-300 barrels of oil per day.

The acquisition from Kupfec was agreed for a consideration of USD 500,000, of which USD 250,000 was paid in June 2020, as per the terms of the conditional share purchase agreement in relation to this transaction. The balance of the purchase price is due upon completion of the acquisition, which is expected to be obtained during the month of November 2020.

The acquisition from CNPC was agreed for a consideration of USD 350,000, as per the terms of the conditional share purchase agreement in relation to this transaction. The payment of the purchase price is due upon completion of the acquisition.

In March 2021, the Company acquired from Candax Energy its Tunisian entity called Ecumed Petroleum Zarzis, paying the amount of USD\$150,000. No additional payments are required.

**26. Financial risk management and financial instruments**

	<b>March 31, 2021</b>	<b>March 31, 2020</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
<b>Financial assets at amortised cost</b>		
Non-current financial assets at amortised cost	-	13
Trade and other receivables	14,627	14,386
Director's loan account	-	360
Cash and cash equivalents	1,631	1,220
<b>Total financial assets</b>	<b>16,258</b>	<b>15,979</b>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

	March 31, 2021	March 31, 2020
	CAD \$'000	CAD \$'000
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	21,028	18,832
Loans	5,279	4,470
Non-convertible bond and notes	7,466	4,359
Deferred consideration	42,238	-
<b>Total financial liabilities</b>	<b>76,011</b>	<b>27,661</b>

Zenith finances its operations through a mixture of equity, debt and retained earnings. Finance requirements are reviewed by the Board when funds are required for acquisition, exploration and development of projects.

Zenith's policy is to maintain an appropriate financial position to sustain future development of the business. There were no changes to the Group's capital management approach during the year ended March 31, 2021.

Zenith's treasury functions, which are managed by the board, are responsible for managing fund requirements and investments which include banking, cash flow management, interest and foreign exchange exposure to ensure adequate liquidity to meet cash requirements.

Zenith's principal financial instruments are cash and deposits, and also trade and other receivables. These instruments are used for meeting the Group's requirement for operations.

Zenith's main financial risks are foreign currency risk, liquidity risk, interest rate risk, commodity price risk and credit risks. Set out below are policies that are used to manage such risks:

**a) Credit risk**

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Group's maximum credit risk exposure is limited to the carrying amount cash of CAD \$1,631k (2020 – CAD \$1,220k) and trade and other receivables of CAD \$14,627k (2020 – CAD \$14,746k).

Deposits are, as a general rule, placed with banks and financial institutions that have credit rating of not less than AA or equivalent which are verified before placing the deposits.

The composition of trade and other receivables is summarized in the following table:

	March 31, 2021	March 31, 2020
	CAD \$'000	CAD \$'000
Oil and natural gas sales	1,803	2,394
Other	12,824	12,352
	<b>14,627</b>	<b>14,746</b>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

The receivables related to the sale of oil and natural gas are due from large companies who participate in the oil and natural gas industry in Italy, Congo and Tunisia. Oil and natural gas sales receivables are typically collected in the month following the sales month. No expected credit losses have been recognized in respect of trade receivables of this nature.

The Group's receivables are aged as follows:

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Current	1,803	2,394
90 + days	-	-
	<b>1,803</b>	<b>2,394</b>

**b) Liquidity risk**

Liquidity risk is the risk that the Group will incur difficulties meeting its financial obligations as they are due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions without incurring unacceptable losses or risking harm to the Group's reputation.

The Directors have considered the recoverability of the outstanding debts of the Group and do not consider there to be any impairment necessary.

As of March 31, 2021, the contractual cash flows, including estimated future interest, of current and non-current financial assets mature as follows:

	Carrying Amount CAD \$'000	Contractual cash flow CAD \$'000	Due on or before 31 March 2022 CAD \$'000	Due on or before 31 March 2023 CAD \$'000	Due after 31 March 2023 CAD \$'000
Trade and other receivables	14,627	14,627	14,627	-	-
Cash and cash equivalents	1,631	1,631	1,631	-	-
	<b>16,258</b>	<b>16,258</b>	<b>16,258</b>	<b>-</b>	<b>-</b>

As of March 31, 2021, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying Amount CAD \$'000	Contractual cash flow CAD \$'000	Due on or before 31 March 2022 CAD \$'000	Due on or before 31 March 2023 CAD \$'000	Due after 31 March 2023 CAD \$'000
Trade and other payables	21,028	21,028	21,028	-	-
Loans	5,279	5,356	4,412	944	-
Non-convertible bond	7,466	8,205	5,226	260	2,719
	<b>33,773</b>	<b>34,589</b>	<b>30,666</b>	<b>1,204</b>	<b>2,719</b>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

**c) Foreign currency risk**

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange rates to Canadian dollars for the noted dates and periods are as follows:

	Closing rate		Average rate	
	2021	2020	2021	2020
US dollars	1.2591	1.4170	1.3221	1.3360
Euro	1.4766	1.5586	1.5407	1.4865
Swiss Franc	1.3347	1.4714	1.4318	1.3542
British Pound	1.7332	1.7532	1.7264	1.6857
Norwegian Crown	0.1474	0.1351	0.1442	0.1399

The following represents the estimated impact on net (loss)/income of a 10% change in the closing rates as of March 31, 2021 and 2020 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	March 31, 2021	March 31, 2020
	CAD \$'000	CAD \$'000
US dollars	198	69
Euro	20	6
Swiss Franc	80	99
	298	174

**d) Commodity price risk**

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices.

As at March 31, 2021, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended March 31, 2021, of approximately CAD \$2k (2020 – CAD \$5k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the year ended March 31, 2021, of approximately CAD \$2k (2020 – CAD \$27k).

**e) Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Group has fixed interest on notes payable, loans payable and convertible notes and therefore is not currently exposed to interest rate risk.

**27. Capital management**

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders. The Group manages its working capital deficiency, long-term debt, and shareholders' equity as capital.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Working capital	2,840	180
Long-term debt	920	2,260
Shareholders' equity	23,803	9,829

The Group's cash flows from its Italian operations will be needed in the near term to finance the operations and repay vendor loans. Once the acquisition in Tunisia will be completed and the license in Congo will be renewed, it will be required to match the same goals. Zenith's principal source of funds will therefore remain the issuance of equity. The Group's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact on the Group's ability to continue as a going concern. The Group is not subject to any externally imposed capital requirements.

**28. Net debt reconciliation**

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	March 31, 2021 CAD \$'000	March 31, 2020 CAD \$'000
Cash and cash equivalents	1,631	1,220
Loans – repayable within one year	(4,359)	(2,210)
Loans – repayable after one year	(920)	(2,260)
Non-convertible bond – repayable within one year	(4,966)	(86)
Non-convertible bond – repayable after one year	(2,500)	(4,273)
	<u>(11,114)</u>	<u>(7,609)</u>

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non- convertible bond due after one year	Total
	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000
<b>Net debt</b>						
<b>April 1, 2019</b>	3,058	(3,776)	(3,417)	(199)	(4,759)	(9,093)
Issue of non-convertibles bonds	3,328	-	-	-	(3,328)	-
Interest on non-convertible bonds	-	-	-	(81)	-	(81)
De-recognition of bonds held in treasury	-	-	-	-	3,814	3,814
Repayment of non-convertible bonds	(194)	-	-	194	-	-
Transfer from non-current to current		(1,253)	1,253	-	-	-



**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

Issue of loans	2,004	(2,004)	-	-	-	-
Loan waived (net of expenses)	-	584	-	-	-	584
Repayment of loans	(4,107)	4,107	-	-	-	-
Foreign exchange	-	132	(96)	-	-	36
Net cash flow	(2,869)	-	-	-	-	(2,869)
<b>March 31, 2020</b>	<b>1,220</b>	<b>(2,210)</b>	<b>(2,260)</b>	<b>(86)</b>	<b>(4,273)</b>	<b>(7,609)</b>
Issue of non-convertibles bonds	3,155	-	-	-	(3,155)	-
Interest on non-convertible bonds	-	-	-	(100)	-	(100)
Repayment of non-convertible bonds	(148)	-	-	86	62	-
Transfer from non-current to current	-	(1,033)	1,033	(4,866)	4,866	-
Issue of loans	-	(2,445)	(186)	-	-	(2,631)
Repayment of loans	(1,828)	1,448	380	-	-	-
Loan converted into shares	-	-	19	-	-	19
Foreign exchange	-	(119)	94	-	-	(25)
Net cash flow	(768)	-	-	-	-	(768)
<b>March 31, 2021</b>	<b>1,631</b>	<b>(4,359)</b>	<b>(920)</b>	<b>(4,966)</b>	<b>(2,500)</b>	<b>(11,114)</b>

## 29. Operating segments

The Group's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Group's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Board of the Directors.

The Group has four reportable segments which are as follows:

- Italy, which commenced gas operations following the acquisition of assets in June 2013;
- The Republic of the Congo, which was acquired during the 2020 FY
- Tunisia, which was acquired during the 2021 FY
- Other, which includes corporate assets and the operations in the Canadian, Swiss, Argentinian and Norwegian entities.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

Azerbaijan, which was acquired during the FY 2017 and divested during FY 2020, is mentioned only for comparative purposes with the past financial year. The results for Azerbaijan as of March 31, 2020, are included in the "Discontinued Operations" (note 21).

<b>YEAR 2020</b>	<b>Congo CAD \$000</b>	<b>Italy CAD \$000</b>	<b>Azerbaijan CAD \$000</b>	<b>Other CAD \$000</b>	<b>Total CAD \$000</b>
Property and equipment	20,171	8,437	-	5,697	34,305
Other assets	10,531	1,316	1,318	3,613	16,778
<b>Total liabilities</b>	<b>11,303</b>	<b>9,462</b>	<b>5,330</b>	<b>15,159</b>	<b>41,254</b>
Capital Expenditures	60	60	696	531	1,347
Revenue	94	641	-	-	735
Operating and transportation	(131)	(376)	-	(1,857)	(2,364)
General and Administrative	(294)	(807)	-	(5,890)	(6,991)
Depletion and depreciation	(33)	(284)	-	(529)	(846)
Loss on discontinued operations	-	-	(580,633)	-	(580,633)
Gain on business combination	20,111	-	-	-	20,111
Other gains	-	-	-	1,425	1,425
Finance and other expenses	-	(449)	-	(1,293)	(1,742)
Taxation	(4)	-	-	-	(4)
<b>Segment profit/(loss)</b>	<b>19,743</b>	<b>(1,275)</b>	<b>(580,633)</b>	<b>(8,144)</b>	<b>(570,309)</b>

<b>YEAR 2021</b>	<b>Congo CAD \$000</b>	<b>Italy CAD \$000</b>	<b>Tunisia CAD \$000</b>	<b>Other CAD \$000</b>	<b>Total CAD \$000</b>
Property and equipment	14	7,458	87,998	5,012	100,482
Other assets	9,229	1,400	4,777	3,548	18,954
<b>Total liabilities</b>	<b>7,325</b>	<b>11,409</b>	<b>56,003</b>	<b>20,896</b>	<b>95,633</b>
Capital Expenditures	-	36	87,998	16	88,050
Revenue	456	85	55	-	596
Operating and transportation	(689)	(237)	17	(742)	(1,651)
General and Administrative	(5,208)	(240)	(101)	(10,652)	(16,201)
Depletion and depreciation	16	(184)	(9)	(613)	(790)
Gain on business combination	-	-	36,003	488	36,491
Finance and other expenses	(13,640)	(391)	26	(912)	(14,917)
Taxation	(3)	-	-	-	(3)
<b>Segment profit/(loss)</b>	<b>(19,068)</b>	<b>(967)</b>	<b>35,991</b>	<b>(12,431)</b>	<b>3,525</b>

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

The following customers combined have 10% or more of the Group's revenue:

		2021	2020
		CAD \$000	CAD \$000
Customer A		36	544

**30. Controlling party**

At as of the end of the financial year ending March 31, 2021, the Directors do not consider there to be a controlling party.

**31. Events subsequent to the year end**

**8 April 2021 - Extension of SPA for acquisition of SLK from KUFPEC**

Zenith Netherlands signed an extension agreement (the "Extension") in respect of the conditional sale and purchase agreement ("SPA") it signed with KUFPEC (Tunisia) Limited ("KUFPEC"), a 100% subsidiary of Kuwait Foreign Petroleum Exploration Company K.S.C.C, a subsidiary of the State of Kuwait's national oil company, for a participation in, inter alia, the North Kairouan permit and the Sidi El Kilani Concession (the "Tunisian Acquisition"), which includes the Sidi El Kilani oilfield ("SLK"). The SPA was announced to the market on April 20, 2020.

KUFPEC holds an undivided 22.5% interest in the Tunisian Acquisition, together with 25 Class B shares in Compagnie Tuniso-Koweïto-Chinoise de Pétrole (CTKCP), the operator, representing 25% of the issued share capital of the company.

Completion of the SPA remains conditional on a favourable opinion being granted by the *Comité Consultatif des Hydrocarbures* ("CCH") of the Republic of Tunisia and the approval of the Tunisian State represented by the Ministry of Industry and Energy in respect of the transfer of KUFPEC's right, title and interest in and under the SLK Concession to Zenith Netherlands ("Completion").

The Extension has been granted in view of the difficulties caused by the ongoing COVID-19 pandemic which have not enabled Completion to be achieved. The new Longstop date for Completion of the SPA was June 30, 2021, but this was amended on June 25, 2021, and the current Longstop date as at the date of this document is October 31, 2021.

**21 April 2021 - Binding Offer to acquire oil production and development assets in Tunisia**

Zenith announced that it had made a binding offer (the "Offer") to wholly acquire a company holding a 100% interest in two hydrocarbons production and development concessions in Tunisia (the "Potential Acquisitions"), which has now been accepted.

The Offer is represented by a mix of cash payments and assumption of debt by Zenith for a total consideration of approximately USD\$200,000.

The Potential Acquisitions currently produce approximately 80-100 barrels of condensate per day with 5.5-6 MMSCF of natural gas, which is re-injected into the formation, from the first Potential Acquisition concession, and approximately 25 barrels of oil per day from the second Potential Acquisition concession. One well within the first Potential Acquisition concession suffered tubing string damage and has been temporarily shut-in,

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

having had a stabilised production range of between approximately 500-600 barrels of oil per day prior to production being suspended. The low oil price environment during 2020 and the material investment required to restore production from this well have prevented the necessary repair work from being implemented.

A recent study carried out by seller in respect of the second Potential Acquisition, comprising production, cost-effectiveness and feasibility evaluations, concluded that the current production of approximately 25 barrels of oil per day could be increased to up to approximately 200 barrels of oil per day via drilling activities. The seller did not implement the recommendations of the study due to the low oil price environment during 2020 and the emergence of financing difficulties.

Both Potential Acquisitions will be acquired with a 100% working interest. The Company can confirm that the Potential Acquisitions are due to expire during the years 2033 and 2034 respectively.

**23 April 2021 - Debt reduction, amendment of terms and issue of warrants**

Zenith announced that it has reduced its liabilities, extended the maturity date of two existing loans and issued share purchase warrants to certain lenders of the Company.

On February 14, 2020, the Company announced that, in relation to its US\$2.5 million convertible loan facility (the "Facility") it had reduced its liability to US\$1.05 million. The Company confirmed that, following recent repayments, the current liability in relation to the Facility stands at US\$0.7 million.

As last announced on January 6, 2021, the Company had an outstanding credit agreement with a financial institution in Azerbaijan for an amount US\$54,650.00 plus accrued interest payable by June 30, 2021. This liability has now been reduced to a total amount of US\$25,000.

The Company confirms that it has amended the terms of the US\$2.5 million convertible loan facility and of an existing revolving credit line, extending the current repayment terms. In connection with these loan extensions, Zenith has issued:

- 45,000,000 share purchase warrants exercisable at NOK 0.12 (approximately £0.01) per common share payable in full in cash on subscription, and expiring within six months from the date of issue; and,
- 13,593,113 share purchase warrants to the lenders exercisable at NOK 0.156 (approximately £0.013) per common share payable in full in cash on subscription expiring three years from the date of issue.

**30 April 2021 – Acquisition of Robbana and El Bibane in Tunisia**

Zenith announced that, following its market announcement dated April 21, 2021, Compagnie Du Desert Ltd ("CDD"), its recently incorporated fully owned subsidiary, has entered into a share purchase agreement ("SPA") with Candax Energy Limited ("Candax") for the acquisition of a 100 percent interest in Candax's fully owned subsidiary in Barbados, Ecumed Petroleum Tunisia Ltd ("EPT") (the "Acquisitions"), which holds a 100% interest in the El Bibane and Robbana concessions in Tunisia.

Pursuant to the terms of the SPA, CDD has agreed to acquire 100% of the issued share capital of EPT for a nominal consideration of US\$100 payable at completion, as well an additional consideration of approximately USD\$200,000 in the form of assumption of debt payable by the close of May 2021.

The El Bibane concession ("El Bibane") is located 16 kilometres offshore from the port of Zarzis in the Gulf of Gabes, covering an area of approximately 228 square kilometres and in approximately 7-8 meters water depth. The field was discovered by Marathon Oil Corporation in 1982. However, it was not developed until 1998. Upon

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

initial development, a peak production of 4,500 bopd was achieved. The reservoir is located in the cretaceous Zebbag fractured dolomite formation at approximately 2,150 metres below surface. Zenith has acquired a 100% working interest in El Bibane. A total of three wells remain active.

A total of 6 wells plus 4 sidetracks have been drilled. El Bibane expires on December 31, 2033.

The Robbana concession ("**Robbana**"), covering 48 square kilometres and located onshore in the island of Djerba in the southern Gulf of Gabes, was discovered in 1988, achieving a peak production of 500 bopd in 1994.

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 discovery, ROB-1 which is still in production and ROB-2 which is temporarily abandoned. Robbana expires on November 4, 2034.

### **30 April 2021 – Exercise of Options**

Zenith announced the exercise of warrants to acquire a total of 45,000,000 new Common with an exercise price of NOK 0.12 (approximately £0.01) for a total consideration of 5,400,000 NOK (approximately £450,000).

### **10 May 2021 - Norwegian institutional investment**

Zenith announced that it had secured Norwegian institutional investment in Zenith by way of a private placement in Norway which has also attracted the participation of a high-net-worth private investor (the "**Private Placement**").

The Private Placement has resulted in the issuance of 60 million new common shares in the share capital of the Company (the "**Private Placement Shares**") for a total consideration of NOK 6,000,000 (approximately 522,000 or EUR 600,000).

The subscription price of the Placement Shares was **NOK 0.10** (equivalent to approximately £0.087), a discount of approximately 8.75 percent in respect of the closing price of the Company's common shares admitted to trading on the Euronext Growth of the Oslo Stock Exchange on May 7, 2021.

The Company issued the following share purchase warrants ("**Warrants**") as part of the Private Placement:

- 34,284,000 Warrants with an exercise price of **NOK 0.25** expiring on July 1, 2022
- 25,716,000 Warrants with an exercise price of **NOK 0.325** expiring on July 1, 2023

Each Warrant will provide the investor the right to one new common share in the share capital of Zenith upon exercise.

Proceeds from the Private Placement will be deployed to fund planned field development activities to be performed in the recently acquired Ezzaouia, El Bibane and Robbana concessions in Tunisia, as well as providing additional general working capital to support Zenith's broader development activities in Africa.

### **26 May 2021 – Loan for Tunisian Development**

Zenith announced that it has entered into a loan agreement with Winance, a Dubai registered single-family office (the "**Lender**"), for a total amount of EUR 2.1 million (approximately £1.8 million or approximately NOK 21.4 million) (the "**Loan Agreement**").

The Loan Agreement has a duration of six months, does not attract interest and an upfront arrangement fee, equal to 5 percent of the total drawdown amount, has been paid to the Lender in accordance with the terms

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

of the Loan Agreement.

During each month prior to the maturity date, Zenith shall make repayments in accordance with the Loan Agreement (“Instalments”), with the first Instalment being payable during the month of July 2021.

100,000,000 new common shares of no par value (the “Reserve Shares”) have been issued to the Lender to be held in a depository institution designated by the Lender.

Under the terms of the Loan Agreement, Zenith may elect to pay each Instalment either by cash or by utilizing the Reserve Shares, by delivering to the Lender an amount of Reserve Shares equivalent to the quotient obtained by dividing the Instalment Amount by 95 percent of the applicable VWAP (volume weighted average price) for the period of ten business days prior to the due date for each Instalment.

The Company has also issued a total of 8,400,000 new common shares at a price of NOK 0.10 (equivalent to approximately £0.085) to be held in Treasury (the “Treasury Shares”).

**1 June 2021 – Debt Reduction & Issue of Warrants**

As announced on January 6, 2021, the Company had an outstanding credit agreement with a financial institution in Azerbaijan for an amount US\$54,650.00 plus accrued interest payable by June 30, 2021. This liability was reduced to a total amount of US\$25,000 as per announcement dated April 23, 2021 and on May 31, 2021, the Company announced that it completely repaid this facility.

The Company also announced that, in relation to the loan agreement announced on May 26, 2021, issued 89,053,125 warrants at an exercise price of NOK 0.12 and an expiry date of two years from the issue.

**10 June 2021 – Drilling activities in Robbana, onshore Tunisia**

The Company announced that it is in the process of finalising plans to commence drilling activities in the recently acquired Robbana concession (“Robbana”) in onshore Tunisia.

The Company intends to drill ROB-3, an infill vertical well, in the proximity of the producing Robbana-1 well (“ROB-1”), to a total depth of approximately 2,400 metres.

ROB-3 will target two proven hydrocarbon-bearing reservoirs in the Cretaceous Upper Meloussi sandstone formation, from which successful production has been achieved from Robbana-1 for many years.

A production of approximately 100-150 barrels of oil per day is expected in the event of a successful drilling operation, with a P10 probability of success of approximately 150-170 barrels of oil per day being achieved.

Robbana currently produces approximately 25 barrels of oil per day from ROB-1.

**25 June 2021 – Extension of SPA longstop date for acquisition from KUFPEC, Eurobond coupon payments and new appointments to Advisory Committee**

On June 25, 2021, the Company announced

- that its wholly owned subsidiary Zenith Energy Netherlands B.V. signed an extension agreement of the longstop date in respect of the conditional sale and purchase agreement it signed with KUFPEC (Tunisia) Limited, a 100% subsidiary of Kuwait Foreign Petroleum Exploration Company K.S.C.C, a subsidiary of the State of Kuwait’s national oil company, for a participation in, inter alia, the North Kairouan permit

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

and the Sidi El Kilani Concession. The signing of the SPA was announced to the market on April 20, 2020. The new longstop date for Completion of the SPA is October 31, 2021.

- The coupon payments, in full and on time, in relation to its bonds Zenith Energy Ltd 8% Dec 2021 AT0000A23S79 the Company has issued
- The appointment of Messieurs Jacky Fleschen and Mohamed Bouleymen to its Advisory Committee.
  - Mr Fleschen is a civil engineer with a degree from the École Spéciale des Travaux Publics, du bâtiment et de l'industrie (ESTP Paris). He has 40 years' experience in major transactions, specifically in the construction and infrastructure sector, with responsibility for the signing of contracts for a value in excess of 10 billion US\$, and has advised companies including Alston, Groupe ADP, Siemens, Sinopec and China Power.

He has formerly served as Director of KAIC (Kuwaiti Algerian Investment Company SA) FLAVELAB SA in France, and Aston SA in Luxembourg. He is a French citizen based in Dubai.

- Mr Bouleymen is a former Mayor of Tunis, the capital city of the Republic of Tunisia, having served for two terms (1986-1988 and 1990-2000), during which time he was awarded the UNESCO (United Nations Educational, Scientific and Cultural Organization) award for the best managed Arab city.

Since his mayoral tenure, he has held a number of positions including serving as President and Director of SITEP (Société Italo-Tunisienne d'Exploitation Pétrolière), a company that operates the El Borma oilfield in Tunisia, one of the most productive oilfields in the country, and is jointly owned by Italian oil major ENI and the State of Tunisia.

- The settlement of a liability by providing a total of 8,400,000 common shares held in treasury to a creditor wishing to be paid in equity at a price of NOK 0.12 (equivalent to approximately £0.0124).

#### **8 July 2021 - Sale of Tunisian oil production**

On July 8, 2021, the Company announced that it has agreed an international crude oil lifting, scheduled to take place during the month of July 2021, of approximately 68,000 barrels net to Zenith (including approximately 20,000 barrels of domestic market sales) for total receivables of approximately US\$4.5 million.

#### **29 July 2021 – Debt settlement**

On July 29, 2021, the Company announced that it had concluded a debt settlement agreement (the "Debt Settlement") in respect of the drawdown of EUR 500,000 (approximately £426k or CAD\$742k) (the "Credit Facility") made following the signing of a revolving line of credit agreement with a financial institution announced on February 24, 2021.

The Company has issued a total of 30,422,319 new common shares at a price of NOK 0.1725 (equivalent to approximately £0.01412 or CAD\$0.025) to settle the Credit Facility in full.

In connection with the Debt Settlement, the Company has issued the Lender the following Warrants with a duration of two years:

- 20 million Warrants to acquire one common share for each Warrant at an exercise price of NOK 0.16 (equivalent to approximately £0.01310 or CAD\$ 0.023).

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
**For the Year Ended March 31, 2021**

---

23 million Warrants to acquire one common share for each Warrant at an exercise price of NOK 0.20 (equivalent to approximately £0.01637 or CAD\$0.028).

**20 August 2021 - Receipt of payment from SNPC subsidiary in Congo**

On August 20, 2021, the Company announced that one of its fully owned subsidiaries in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.U. ("AAOG Congo"), has received a payment for an amount of approximately US\$128,000, in respect of past oil production produced during the now expired Tilapia I licence by AAOG Congo from Congolaise de Raffinage, a subsidiary of the national oil company of the Republic of the Congo, Société Nationale des Pétroles du Congo.

**23 August 2021 - Payment of multi-currency bond coupon**

On August 23, 2021, the Company announced that it had recently made coupon payments, in full and on time, in respect of its multi-currency Euro Medium Term Notes the Company has issued on the Vienna MTF of the Vienna Stock Exchange.