



ZENITH ENERGY LTD.

**UNAUDITED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED
SEPTEMBER 30, 2020 AND COMPARATIVE PERIOD (SEPTEMBER 30, 2019).**

Management's Responsibility

To the Shareholders of Zenith Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the "**Company**" or the "**Group**") as at and for the six months ended September 30, 2020 have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on currently available information.

(signed) "Andrea Cattaneo"
President and Chief Executive Officer

(signed) "Luca Benedetto"
Chief Financial Officer

November 30, 2020

London, UK

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COMPANY INFORMATION

Directors

Dr. Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)
Andrea Cattaneo (Chief Executive Officer & President, Executive Director)
Luigi Regis Milano (Executive Director)
Dario Ezio Sodero (Non-Executive Director)
Erik Larre (Non-Executive Director)
Sergey Borovskiy (Non-Executive Director)

Registered Office

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Head Office

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Telephone Number: +1 (587) 315 9031

Registered Corporation Number

BC0803216

Website

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Financial Adviser

Allenby Capital Limited
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London
EC3A 6AB, United Kingdom

Independent Auditor

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London, E14 4HD, United Kingdom

Principal Bankers

Canadian Western Bank
Calgary Main
606-4 Street S.W.
Calgary Alberta T2P 1T1, Canada

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

HIGHLIGHTS

Highlights for the six months ended September 30, 2020, include the following:

- The Group generated revenues from oil and natural gas of CAD\$145k (2019 – CAD\$2,651k) in the six months ended September 30, 2019.
- During the six months ended September 30, 2020, the Company sold 8,544 mcf of natural gas from its Italian assets, as compared to 5,499 mcf of natural gas in the 2019 similar period.
- 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.
- On April 17, 2020, the Company announced that it had successfully renegotiated the terms of the acquisition from AIM listed Anglo African Oil & Gas plc ("**AAOG**") of its fully owned subsidiary in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.U, ("**AAOG Congo**") which at the time had a 56 per cent. majority interest in, and was the operator of, the Tilapia oilfield in the Republic of the Congo (the "Tilapia I Licence").
The Company also announced that it had entered into a new conditional Deed of Variation (the "**Deed of Variation**") for the acquisition of a 100 per cent. interest in AAOG Congo and related intercompany loans (the "**Acquisition**") for a revised total consideration of £200,000 (equivalent to CAD\$349k) ("**Revised Consideration**").
- On April 20, 2020, the Company announced that its newly created wholly owned subsidiary Zenith Energy Netherlands B.V. ("**Zenith Netherlands**") had signed a conditional sale and purchase agreement ("**SPA**") with KUFPEC (Tunisia) Limited ("**Seller**"), a subsidiary of the State of Kuwait's national oil company, for the acquisition of a working interest in, inter alia, the North Kairouan permit and the Sidi El Kilani Concession (the "**Tunisian Acquisition**"), which contains the Sidi El Kilani oilfield ("**SLK**").
The Seller 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 22.5% of the issued share capital of the company.
At the time of the Tunisian Acquisition, it was envisaged that Zenith's partners in the Tunisian Acquisition would include the national oil company of Tunisia, Entreprise Tunisienne d'Activités Pétrolières (ETAP) with a 55% interest and CNPC, China National Petroleum Corporation, with a 22.5 % interest.
The Seller agreed to sell, assign and transfer to Zenith Netherlands the Tunisian Acquisition on the terms and subject to the conditions set out in the SPA.
The consideration payable by Zenith Netherlands under the SPA is US\$500,000 (equivalent to CAD\$700k), of which US\$250,000 was paid by the Company.
- On April 22, 2020, the Company announced its intention to delist from the TSX Venture Exchange ("**TSX-V**") and confirmed the full repayment of its largest outstanding liability.
- On April 23, 2020, the Company confirmed that its Azerbaijan subsidiary received two payments for a total of approximately US\$350,000 (equivalent to CAD\$496k) from SOCAR.

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- 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.
- On May 5, 2020, the Company announced the successful completion of the acquisition from AIM listed Anglo African Oil & Gas plc ("**AAOG**") of a 100 percent interest in its fully owned subsidiary in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.U ("**AAOG Congo**"), which at the time had a 56 percent majority interest in, and was the operator of, the Tilapia oilfield.

In accordance with the terms of the amended share purchase agreement, completion ("**Completion**") took place following the receipt of AAOG shareholder approval being obtained at the AAOG general meeting held on May 4, 2020.

- On May 28, 2020, the Company announced that the TSX Venture Exchange ("**TSX-V**") had confirmed 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.
- 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.
- On June 11, 2020, the Company announced that it had made payment for a total of US\$250,000 (approximately CAD\$350k) to Kuwait Foreign Petroleum Exploration Company K.S.C.C ("**KUFPEC**"), a subsidiary of the State of Kuwait's national oil company, in relation to the acquisition of a 22.5% working interest in the North Kairouan permit and the Sidi El Kilani Concession (the "**Tunisian Acquisition**"), which contains the Sidi El Kilani oilfield ("**SLK**").

Completion of the Tunisian Acquisition remains conditional on approval being granted from the Comité Consultatif des Hydrocarbures of the Republic of Tunisia in respect of the transfer of the Seller's right, title and interest in and under the Tunisian Acquisition to Zenith Netherlands. Zenith has initiated the necessary formalities in relation to the aforementioned approval process and a final decision is expected in due course.

- On June 25, 2020, the Company announced it had completed the handover process (the "**Handover**") of the Contract Rehabilitation Area to SOCAR in the Republic of Azerbaijan. As a result of the Handover, Zenith has ceased all oil production operations in Azerbaijan and all field production personnel, approximately 170 employees, have been transferred to a division of SOCAR.
- On June 30, 2020, the Company announced that it had fully paid the semi-annual interest in relation to the following debt instrument: "ZENITH ENERGY LTD 8% NOTES - 2021". The payment in relation to the Notes is the third such payment, with previous interest payments having taken place during the months of June 2019 and December 2019 respectively.
- On July 7, 2020, the Company announced that it had entered into a joint venture agreement (the "**Agreement**") with a local oil & gas company in the Republic of the Congo.

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The primary objective of the Agreement is the potential acquisition of an onshore oil production licence (the "**Potential Acquisition**"), last producing at a rate of approximately 300 barrels of oil per day from the regionally proven Mengo formation as recently as 2019. Production has currently been suspended pending the assignation of a new licence.

The Potential Acquisition is located in the Kouilou region of the Republic of the Congo in proximity of Pointe-Noire, the country's second largest city, and is also in the vicinity of Tilapia, the Company's recently acquired oil production asset with transformational production potential.

Under the terms of the Agreement, the Company and its local partner will jointly submit an application to the relevant authorities in the Republic of the Congo, including the Ministry of Hydrocarbons, for the award of a new licence in relation to the Potential Acquisition.

Further, in accordance with the Agreement, it is stipulated that Zenith shall have the role of joint operator and majority partner in the event that a new licence is successfully obtained in relation to the Potential Acquisition.

Following preliminary technical analysis of the Potential Acquisition, as part of the due diligence activities conducted prior to entering into the Agreement, Zenith is confident that profitable oil production operations can be achieved following the reactivation of the Potential Acquisition and the performance of targeted, low-intensity workover activities.

- On July 10, 2020, the Company announced that it had 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.
- On July 31, 2020, the Company announced that its Italian subsidiary had received approval to be awarded a legally binding loan facility (the "**Loan**") for an amount of approximately EUR 300k (approximately CAD\$474k) from an Italian governmental entity. The Loan attracts an interest rate of 0.85 per cent, has a grace period of 24 months during which only the interest will be payable, normal financial covenants, and a duration of six years. Under the terms of the Loan, all funds to be disbursed are to be utilised for the purpose of the establishment of commercial activities in Africa, specifically in the Republic of Congo and the broader West Africa region.
- On July 31, 2020, the Company announced the termination, by mutual agreement between the parties, of the sale and purchase agreement entered into with Coro Energy plc ("**Coro**") relating to the proposed acquisition by Zenith of Coro's entire Italian natural gas production and exploration portfolio.
- On August 6, 2020, the Company announced that it had 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).

- On August 7, 2020, the Company announced that it had extended the duration of the non-binding Letter of Intent signed with an Arab consortium of strategic institutional investors focused on African development opportunities and to provide an investment of US\$2 million in Zenith's share capital for a period of 90 days (the "**Strategic Investment**"). The Strategic Investment was conditional and subject to

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a number of conditions, including the successful completion of the publicly announced Tunisian Acquisition, as well as the successful acquisition of two oil production licenses currently being negotiated with a national oil authority in West Africa. In addition, the Strategic Investment was also conditional on the appointment of a director proposed by the investors to Zenith's Board.

- On August 10, 2020, the Company announced that it had incorporated Zenith Energy Congo SA ("**Zenith Congo**"), a fully owned subsidiary of the Company, created under the laws of the Republic of the Congo. Zenith Congo was established for the purpose of submitting a comprehensive commercial and technical offer (the "**Offer**") to the Ministry of Hydrocarbons of the Republic of the Congo for the award of a new 25-year licence for the Tilapia oilfield to be named "Tilapia II". As a result, and in agreement with the Ministry of Hydrocarbons, the Company announced the termination of the Plan for the Continuation of Activities, first announced to the market on July 20, 2020, and returned operatorship of the Tilapia licence to a subsidiary of SNPC.
- On August 26, 2020, the Company announced that BCRA Credit Rating Agency AD ("**BCRA**") had assigned Zenith a "B-" with Stable Outlook long-term debt issuer credit rating.
- On September 8, 2020, the Company announced that its wholly owned subsidiary, Zenith Energy Netherlands B.V. ("**Zenith Netherlands**") had signed a conditional sale and purchase agreement ("**SPA**") with CNPC International (Tunisia) Ltd., ("**Seller**"), a 100% subsidiary of CNPCI, China National Petroleum Corporation International Ltd., for the acquisition of a working interest in, inter alia, the North Kairouan permit and the Sidi El Kilani Concession (the "**Tunisian Acquisition**"), which contains the producing Sidi El Kilani oilfield ("**SLK**").
- The Seller 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.

The Seller agreed to sell, assign and transfer to Zenith Netherlands the Tunisian Acquisition on the terms and subject to the conditions set out in the SPA.

The consideration payable by Zenith Netherlands under the terms of the SPA is US\$300,000 (the "**Consideration**").

Completion of the SPA is conditional on approval being granted by the Comité Consultatif des Hydrocarbures ("**CCH**") of the Republic of Tunisia in respect of the transfer of the Seller's right, title and interest in and under the SLK Concession to Zenith Netherlands ("**Completion**").

- On September 25, 2020, the Company announced that it had completed a private placement in Norway, to raise an aggregate total amount of approximately NOK 4,520k (approximately £409k or CAS\$ 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.

CEO STATEMENT

Zenith Energy Ltd. (“**Zenith**” or “the **Group**”) is an international oil and gas production Group, incorporated in Canada, listed on the Main Market for listed securities of the London Stock Exchange under the ticker symbol “ZEN” and on the Merkur Market of the Oslo Børs under the ticker “ZENA:ME”. The Company has also issued two series of EMTN, that are listed on the third Vienna Stock Exchange Market.

Zenith’s strategic objective is to become a mid-tier, Africa focused hydrocarbon production and exploration Group. Specific attention is directed towards assets with proven development potential via development drilling, field rehabilitation, and low-risk exploration activities.

In view of the recent decline in oil prices, as well as macroeconomic developments caused by the COVID-19 pandemic, opportunities have arisen for companies such as Zenith to acquire, at commercially advantageous terms, oil and gas production and exploration assets being divested by many oil majors and leading oil and gas companies. As a leadership team, we are seeking to maximize this opportunity in order to ensure Zenith emerges from the current low oil price environment a stronger and more attractive entity with significant future development potential.

We are very pleased to have entered into two separate conditional transactions in relation to working interests in an onshore oil production asset in Tunisia. The first with KUFPEC, a subsidiary of Kuwait Petroleum Corporation, and the second with China National Petroleum Corporation, to acquire their respective working interests of 22.5% in the Sidi El Kilani Concession and the North Kairouan permit, which contain the producing Sidi El Kilani oilfield. It is our expectation to receive regulatory approval from the *Comité Consultatif des Hydrocarbures* of the Republic of Tunisia in respect of the transfer of ownership for both acquisitions in due course.

Further, we are delighted to have established a 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 (a company listed on the AIM of the London Stock Exchange) 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 advantageous terms, an interest, albeit brief, in the now expired Tilapia I license (expired on July 18, 2020), as well as receivables, now amounting to approximately US\$5.7 million dollars owed by SNPC (Société Nationale des Pétroles du Congo), the National Oil Company.

As publicly announced, the Company has presented a comprehensive commercial and technical offer (the “**Offer**”) to the Ministry of Hydrocarbons of the Republic of the Congo in order 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.

The results for the six months ended September 30, 2020, reflect the significant changes the Group has undergone during the course of this period, specifically in result of the impairment resulting from the handover of the CRA in Azerbaijan and its associated reserves.

We are very excited about our countercyclical acquisition campaign in Africa in the current low oil price environment, especially the highly prospective development production potential of the Tilapia oilfield and the material daily production revenue to be obtained from completion of our acquisitions in Tunisia. Indeed, we are hopeful to conclude further acquisitions of a similar kind in due course.

I thank shareholders for their loyal support. As is clear, my confidence in Zenith, as well as that of the team, remains unchanged. We fully believe that our new geographic concentration in Africa, in less geologically

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challenging assets acquired at highly advantageous commercial terms, will enable the Group to achieve its operational objectives and deliver value to our investors.

We shall continue to evaluate the acquisition of additional energy production opportunities building on the momentum of our recent progress to further support the Group's expansion.

Andrea Cattaneo
President, CEO and Director

Brazzaville, Republic of the Congo

November 30, 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Six month ended | |
|---|------|-------------------------------------|-------------------------------------|
| | | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
| Continuing operations | | | |
| Revenue | | 145 | 344 |
| Cost of sales | | | |
| Production costs | | (656) | (1,158) |
| Depletion and depreciation | 8 | (198) | (203) |
| Gross loss | | (709) | (1,017) |
| Administrative expenses | 5 | (3,548) | (1,989) |
| Operating loss | | (4,257) | (3,006) |
| Finance expense | 6 | (284) | 1,038 |
| Loss for the period before taxation | | (4,541) | (1,968) |
| Taxation | 7 | (3) | - |
| Gain/(loss) for the period from continuing operations attributable to owners of the parent | | (4,544) | (1,968) |
| Profit/(loss) from discontinued operations (attributable to owners of the parent) | 18 | 563 | (5) |
| Loss for the period attributable to owners of the parent | | (3,981) | (1,973) |
| Other comprehensive income | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations, net of tax | | 314 | (65) |
| Other comprehensive income for the period, net of tax | | 314 | (65) |
| Total comprehensive loss for the period attributable to owners of the parent | | (3,667) | (2,038) |
| Earnings per share | 20 | CAD \$ | CAD \$ |
| Loss for the period - basic | | (0.01) | (0.01) |
| Loss for the period – diluted | | (0.01) | (0.01) |
| From continuing operations - basic | | (0.01) | (0.01) |
| From continuing operations - diluted | | (0.01) | (0.01) |
| From discontinued operations - basic and diluted | | 0.001 | (0.00) |

The notes on pages 16 to 55 form part of the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| ASSETS | Note | Six month ended | |
|--|------|-----------------------|-----------------------|
| | | September 30, 2020 | September 30, 2019 |
| | | CAD \$'000 | CAD \$'000 |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 33,230 | 1,080,311 |
| Financial assets at amortised cost | 9 | 12 | 408 |
| | | 33,242 | 1,080,719 |
| Current assets | | | |
| Inventory | 10 | 682 | 161 |
| Trade and other receivables | 11 | 15,258 | 3,889 |
| Director's loan account | 11 | 136 | (50) |
| Cash and cash equivalents | | 1,453 | 1,681 |
| | | 17,529 | 5,681 |
| TOTAL ASSETS | | 50,771 | 1,086,400 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 13 | 45,706 | 33,557 |
| Share warrants & option reserve | 14 | 947 | 1,142 |
| Contributed surplus | | 4,431 | 4,125 |
| Retained earnings | | (42,361) | 533,021 |
| Total equity | | 8,723 | 571,845 |
| Non-current liabilities | | | |
| Loans | 16 | 1,903 | 2,299 |
| Non-convertible bonds | 17 | 4,456 | 4,759 |
| Deferred consideration payable | 18 | - | 482,839 |
| Deferred tax liabilities | 7 | 2,398 | 2,398 |
| Decommissioning provision | 19 | 13,307 | 8,807 |
| Retirement provision | | 48 | - |
| Total non-current liabilities | | 22,112 | 501,102 |
| Current Liabilities | | | |
| Trade and other payables | 15 | 17,739 | 10,731 |
| Loans | 16 | 1,903 | 1,762 |
| Non-convertible bonds | 17 | 294 | 104 |
| Deferred consideration payable | 18 | - | 857 |
| Total current liabilities | | 19,936 | 13,454 |
| TOTAL EQUITY AND LIABILITIES | | 50,771 | 1,086,400 |

Approved by the Board dated on November 30, 2020

Signed

Jose Ramon Lopez-Portillo Chairman

The notes on pages 16 to 55 form part of the Financial Statements

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| 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 | | |
| Balance as at April 1, 2019 | 28,866 | 1,147 | 4,125 | 534,943 | 569,081 | |
| Loss for the period | - | - | - | (1,973) | (1,973) | |
| Other comprehensive income | - | - | - | (65) | (65) | |
| Total comprehensive income | - | - | - | (2,038) | (2,038) | |
| Share issue net of costs – debt settlement | 303 | - | - | - | 303 | |
| Share issue net of costs - private placement | 4,230 | - | - | - | 4,230 | |
| Fair value of warrants issued | - | 111 | - | - | 111 | |
| Options exercised | 158 | (116) | - | 116 | 158 | |
| Total transactions with owners recognized directly in equity | 4,691 | (5) | - | 116 | 4,802 | |
| Balance as at September 30, 2019 | 33,557 | 1,142 | 4,125 | 533,021 | 571,845 | |
| Balance as at April 1, 2020 | 40,400 | 1,010 | 4,320 | (35,901) | 9,829 | |
| Prior year adjustment | - | - | - | (2,793) | (2,793) | |
| Balance as at April 1, 2020 restated | 40,400 | 1,010 | 4,320 | (38,694) | 7,036 | |
| Loss for the period | - | - | - | (3,981) | (3,981) | |
| Other comprehensive income | - | - | - | 314 | 314 | |
| Total comprehensive income | - | - | - | (3,667) | (3,667) | |
| Share issue net of costs – debt settlement | - | - | - | - | - | |
| Share issue net of costs - private placement | 5,306 | - | - | - | 5,306 | |
| Value of warrants issued | - | 48 | - | - | 48 | |
| Warrants expired | - | (111) | 111 | - | - | |
| Total transactions with owners recognised directly in equity | 5,306 | (63) | 111 | - | 5,354 | |
| Balance as at September 30, 2020 | 45,706 | 947 | 4,431 | (42,361) | 8,723 | |

| 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 16 to 55 form part of the Financial Statements

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CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Six months ended | |
|---|------|-----------------------|-----------------------|
| | | September 30, 2020 | September 30, 2019 |
| | | CAD \$'000 | CAD \$'000 |
| OPERATING ACTIVITIES | | | |
| Loss for the period before taxation | | (3,978) | (1,973) |
| Options/warrants charge | 17 | 48 | 111 |
| Foreign exchange | | (3,318) | (9,660) |
| Depletion and depreciation | 11 | 198 | 913 |
| Reversal of impairment | | (1,128) | - |
| Other gains and losses | 8 | - | (1,376) |
| Finance expense | 9 | 284 | 372 |
| Change in working capital | 15 | (4,623) | 548 |
| Net cash used in operating activities | | (12,517) | (11,065) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 11 | (8) | (1,951) |
| Proceeds from disposal of property, plant and equipment | 11 | - | - |
| Net cash used in investing activities | | (8) | (1,951) |
| FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares, net of transaction costs | | 11,739 | 6,617 |
| Proceeds from exercise of options | | - | 333 |
| Repayments of loans | 19 | (1,889) | (2,382) |
| Proceeds from loans | 19 | 1,091 | 1,453 |
| Proceeds from issue of bonds | | 1,442 | 3,143 |
| Repayment of bonds | 20 | (86) | (385) |
| Proceeds from bonds in treasury | 20 | - | 1,720 |
| Net cash generated from financing activities | | 12,297 | 10,500 |
| Net (decrease)/increase in cash and cash equivalents | | (228) | (2,516) |
| Cash and cash equivalents at beginning of period | | 1,681 | 4,197 |
| Cash and cash equivalents at end of period | | 1,453 | 1,681 |

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

| | | |
|--|------------|--------------|
| Operating activities | 424 | 4,787 |
| Investing activities | - | (1,014) |
| Net cash generated in discontinued operations | 424 | 3,773 |

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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. The Group is exempt from preparing separate parent company financial statements for the period ended September 30, 2020, in accordance 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 20th 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.

Zenith is a public company listed on the Main Market of the London Stock Exchange under the ticker “**ZEN**”, as well as being listed on the Merkur Market of the Oslo Børs 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 dollar (“**US\$**”) for the subsidiaries in 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.

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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 November 2021, 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 period 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 and Congo, which the Group believes will be covered by a combination of funding generated by operations, funds raised post_period 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 period ended September 30, 2020. 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 have therefore 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.

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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 period beginning October 1, 2019 and relevant to the entity:

| Standard / Interpretation/Amendments | |
|---|---|
| IFRS 16 | Leases |
| IAS 28 (long-term interests) | Long-term Interests in Associates and Joint Ventures to clarify that an entity applies IFRS 9 'Financial Instruments' to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. |
| IFRIC 23 | Uncertainty over Income Tax Treatments. |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | Amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements" as result of the IASB's annual improvements project. |

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:

| Standard / Interpretation | impact on initial application | effective date |
|---|---|-----------------------|
| IFRS 3 | Definition of a business | 1 January 2020 |
| IAS 1 and IAS 8 (amendments) | Definition of material | 1 January 2020 |
| IAS 1 (amendments) | Classification of Liabilities as Current or Non-Current | 1 January 2022 |
| Annual Improvements to IFRS Standards 2018–2020 Cycle | Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 | 1 January 2022 |

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.

3. Significant accounting policies

Consolidation

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

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| <i>Name</i> | <i>Country of incorporation and place of business</i> | <i>Proportion of ownership interest</i> | <i>Principal activity</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 | 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.U. (3) | Republic of the Congo | 100% | Oil production |
| Zenith Energy Netherlands BV | Netherlands | 100% | Holding Company |

- (1) Zenith Energy Ltd. has 100% control over Canoel 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

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December 27, 2019, for the acquisition of its fully owned subsidiary in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.U.

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>Name</i> | <i>Country of incorporation and place of business</i> | <i>Proportion of ownership interest</i> | <i>Principal activity</i> |
|-----------------------------------|---|---|---------------------------|
| Leonardo Energy Consulting S.r.l. | Genova, Italy | 48% | 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 workovers 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 CGUs 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.

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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 centre.

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

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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 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 values 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 September 30, 2020 was CAD \$33,230k (2019 – CAD \$1,080,311k).

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.

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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 September 22, 2020 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 September 30, 2020 is CAD \$13,307k (2019 – CAD \$8,807k).

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 September 30, 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 had 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 of September 30, 2020, the current share price was lower than the benchmark price and the Board made calculations to estimate the value of the receivable as of September 30, 2020.

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The management believes that the impairment calculated as of March 31, 2020 (CAD\$700k), is in line with that calculated as of September 30, 2020, and therefore not to further impair the value of the facility. If the Group's share price continues to remain lower than the benchmark price within the contract, further impairments may arise.

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, including accrued interest (March 31, 2020 - US\$5.3 million) (equivalent to CAD\$8.07M) 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.

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

5. Administrative expenses

During the six months ended September 30, 2020, the Group incurred CAD\$ 3,548k (2019 - CAD\$ 1,989k) of administrative expenses. Furthermore, during the same period the Group incurred CAD\$ 703k (2019 - CAD\$ 345k) of non-recurring expenses which relate to the cost of raising funds, negotiation costs for the potential acquisition of producing assets and share based payments costs, which is a non-cash item.

| | Six months ended September 30, | |
|--|---------------------------------------|------------------|
| | 2020 | 2019 |
| | CAD\$'000 | CAD\$'000 |
| Auditors remuneration - audit fees Group | - | - |
| Accounting and bookkeeping | 19 | 16 |
| Legal | 39 | 28 |
| Other professional fees | 320 | 269 |
| Office | 365 | 222 |
| Administrative expenses | 178 | 43 |
| Foreign exchange loss | 645 | 274 |
| Other administrative expenses | 271 | 59 |
| Salaries | 669 | 579 |
| Travel | 339 | 154 |
| General and administrative expenses | 2,845 | 1,644 |
| <u>Non-recurring expenses</u> | | |
| Listing costs | 524 | 182 |
| Negotiation costs for acquisitions | 131 | 50 |
| Transaction Costs | - | 2 |
| Share based payments | 48 | 111 |
| Total non-recurring expenses | 703 | 345 |
| Total general and administrative expenses | 3,548 | 1,989 |

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6. Finance expense

| | Six months ended September 30, | |
|--|--------------------------------|--------------|
| | 2020 | 2019 |
| | CAD \$'000 | CAD \$'000 |
| Debt reduction on settlement of loan | - | 643 |
| Interest reduction on settlement of loan | - | 733 |
| Effective interest on financial liabilities held at amortised cost | (284) | (316) |
| Interest expense | - | (22) |
| Net finance (expense)/income | (284) | 1,038 |

7. Taxation

| | Six months ended September 30, | |
|--|--------------------------------|------------|
| | 2020 | 2019 |
| | CAD \$'000 | CAD \$'000 |
| Current tax | 3 | - |
| Deferred tax | - | - |
| Total tax charge for the period | 3 | - |

The tax (credit) / charge for the six months ended September 30, 2020 comprised CAD\$nil (2019 – CAD\$Nil) of current tax expense and CAD\$nil deferred tax reduction (2019 – CAD\$Nil deferred tax reduction).

As of September 30, 2020, the Group has accumulated non-capital losses in Canada totaling CAD\$607,273k (2019 - CAD \$638,484k) which expire in varying amounts between 2022 and 2040 and CAD \$2,295k (2019 – CAD\$795k) of non-capital losses with no expiry date.

8. Property, plant and equipment

| | D&P Assets CAD\$'000 |
|--|-------------------------|
| Carrying amount at April 1, 2019 | 1,079,639 |
| Additions | 1,951 |
| Disposals | - |
| Depletion and depreciation | (913) |
| Compensatory oil delivered | (159) |
| Foreign exchange differences | (207) |
| Carrying amount at September 30, 2019 | 1,080,311 |
| Carrying amount at April 1, 2020 | 34,305 |
| Additions | 8 |
| Depletion and depreciation | (198) |
| Foreign exchange differences | (885) |
| Carrying amount at September 30, 2020 | 33,230 |

Impairment test for property, plant and equipment

As of September 30, 2020, 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.

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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.

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 2020 gas price of \$4.944/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% (2019 – 15%). This was based on a Weighted Average Cost of Capital analysis consistent with that used in previous impairment reviews.

Based on the key assumptions set out above:

- The estimated recoverable amount of the Italian CGU on September 30, 2020 was higher than its carrying amount by CAD\$8m, therefore, no impairment was recognised in six months ended September 30, 2020 (2019 - CAD \$nil) in the consolidated statement of comprehensive income. A rise in the discount rate to 20% would reduce the excess of the recoverable amount by CAD\$5m.

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 of September 30, 2020. 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.

The Group believes there is a strong probability that the Tilapia licence will be renewed and considers that the field infrastructure, geological data and associated equipment that are owned by the Group in the Republic of the Congo, as of September 30, 2020, 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 six months ended September 30, 2020 (2019 - N/A) in the consolidated statement of comprehensive income. The Group considers the licence renewal to be a key estimate in considering its carrying value as without the licence the asset may be impaired.

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Further, the Company commissioned a Competent Person's Report ("CPR") for the Tilapia 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 carrying value which also supports the Group's position that no impairment is required.

9. Non-current financial assets held at amortised cost

| | September 30, 2020 | September 30, 2019 |
|---------------------------|---------------------------|---------------------------|
| | CAD \$'000 | CAD \$'000 |
| Italian prepaid insurance | - | 408 |
| Other assets | 12 | - |
| | 12 | 408 |

Upon the change of ownership of the assets acquired in Italy in the year 2016, the Group obtained an insurance policy for its Italian oil and gas operations. The policy has a five-year term for which the Group paid the total premium of EUR 567k (CAD \$868k), of which CAD\$408k (2019 – CAD\$nil) were impaired as of March 31, 2020. The outstanding balance of CAD \$nil (2019 - CAD\$408k) is included in long-term assets. During the year 2016 the Group received the news that the insurance company was in default. The Directors decided to expense the full amount on the prepaid insurance as there is uncertainty that they will receive the reimbursement promised by the State of Romania, where the insurance company was based.

10. Inventory

As of September 30, 2020, inventory consists of CAD \$nil (2019 – CAD \$nil) of crude oil that has been produced but not yet sold, and CAD \$682k of materials (2019 – CAD \$161k) . The amount of inventory recognised in the statement of comprehensive income is CAD \$nil (2019 - CAD \$8k).

| | September 30, 2020 | September 30, 2020 |
|------------------------|---------------------------|---------------------------|
| | CAD \$'000 | CAD \$'000 |
| Congo - materials | 674 | - |
| Azerbaijan - materials | - | 155 |
| Italy - materials | 8 | 6 |
| | 682 | 161 |

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11. Trade and other receivables

| | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
|--|--|--|
| Trade receivables | 1,255 | 1,512 |
| Other receivables | 14,003 | 2,377 |
| Directors loan account | 136 | (50) |
| Total trade and other receivables | 15,394 | 3,839 |

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.

As of September 30, 2020, in Other receivables are included the receivable due from SNPC, of approximately US\$5.7 million (approximately CAD\$9 million), investments in subsidiaries for approximately CAD\$3.4 million, taxes and GST (VAT) receivables for approximately CAD\$0.7 million.

12. Change in working capital

| | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
|--|--|--|
| Trade and other receivables | 11,595 | 623 |
| Inventory | 520 | (2) |
| Prepaid expenses | (40) | (14) |
| Prepaid property and equipment insurance | (396) | (8) |
| Trade and other payables | (7,056) | (1,147) |
| Total change in working capital | 4,623 | (548) |

13. Share Capital

Zenith is authorised to issue an unlimited number of Common Shares, of which 465,000,000 were issued at no par value and fully paid during the six months ended September 30, 2020 (2019 – 107,695,043). 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 1,042,072,921 common shares in issue and admitted to trading on the Meker Market of the Oslo Bors, as of September 30, 2020.

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 |
|------------------------------------|------------------------------------|------------------------------|
| Balance – 30 September 2019 | 368,122,107 | 33,557 |

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| | | |
|--|----------------------|---------------|
| Settlement of debts (i) | 11,421,402 | 445 |
| Non-brokered unit private placement (ii) | 37,000,000 | 1,857 |
| Finder's fee | - | 97 |
| Non-brokered unit private placement (iii) | 35,000,000 | 1,124 |
| Balance – 31 December 2019 | 451,543,509 | 36,886 |
| Non-brokered unit private placement (iv) | 55,529,412 | 1,610 |
| Non-brokered unit private placement (v) | 9,000,000 | 232 |
| Equity sharing agreement (vi) | 50,000,000 | 1,389 |
| Non-brokered unit private placement (vii) | 11,000,000 | 283 |
| Balance – 31 March 2020 | 577,072,921 | 40,400 |
| Non-brokered unit private placement (viii) | 75,000,000 | 907 |
| Finder's fee | | (4) |
| Non-brokered unit private placement (ix) | 60,000,000 | 900 |
| Non-brokered unit private placement (x) | 80,000,000 | 1,339 |
| Balance – 30 June 2020 | 792,072,921 | 43,542 |
| Non-brokered unit private placement (xi) | 60,000,000 | 467 |
| Non-brokered unit private placement (xii) | 90,000,000 | 1,060 |
| Non-brokered unit private placement (xiii) | 100,000,000 | 637 |
| Balance – 30 September 2020 | 1,042,072,921 | 45,706 |

- i) 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.
- ii) 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.
- iii) 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)
- iv) 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)
- v) 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.

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- vi) 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)
- vii) 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)
- viii) 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.
- ix) 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.
- x) 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.
- xi) 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.
- xii) 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).
- xiii) 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 CAS\$ 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.

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14. Warrants and options

| | Number of options | Number of warrants | Weighted average exercise price | Amount CAD\$'000 |
|-------------------------------------|-------------------|--------------------|---------------------------------|------------------|
| Balance – April 1, 2019 | 11,100,000 | 19,796,378 | 0.12 | 1,147 |
| Option exercised | (1,311,204) | | 0.12 | (116) |
| Warrants issued | - | 47,812,500 | 0.10 | 111 |
| Balance – September 30, 2019 | 9,788,796 | 67,608,878 | 0.12 | 1,142 |
| Balance – April 1, 2020 | 9,085,225 | 55,663,984 | 0.12 | 1,010 |
| Warrants issued | - | 45,000,000 | 0.10 | (111) |
| Warrants expired | - | (47,812,500) | 0.02 | 48 |
| Balance – September 30, 2020 | 9,085,225 | 52,851,484 | 0.03 | 947 |

During the six-month period to September 30, 2020, the Company issued 45,000,000 warrants (2019 – 47,812,500) and 47,812,500 (2019 - Nil) warrants expired.

As of September 30, 2020, the Group had 52,851,484 warrants (2019 – 67,608,878) warrants outstanding (relating to 52,581,484 shares) and exercisable at a weighted average exercise price of CAD\$0.03 per share with a weighted average life remaining of 9 months.

There were no options in the money as of September 30, 2020.

The issue of 45,000,000 warrants (2019 – 47,812,500) during the six months ended 30 September 2020, originated a fair value amount of CAD\$48k (2019 – CAD\$111k) that was debited as share-based payment, non-cash item cost, in the P&L.

The expiry of 47,812,500 (2019 - Nil) warrants during the year was recognised in the contributed surplus amount of Equity section.

Options

| Grant Date | September 30, 2020 | | September 30, 2019 | | 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 | 500,000 | 0.18 | November 2022 |
| April 2018 | <u>7,485,225</u> | 0.12 | <u>8,188,796</u> | 0.12 | April 2023 |
| | 9,085,225 | 0.12 | 9,788,796 | 0.12 | |

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

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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 2020, and the comparative period 2019.

| | Number of options |
|-------------------------------------|--------------------------|
| Balance – April 1, 2019 | 11,100,000 |
| Options issued | - |
| Options exercised | (1,311,204) |
| Options expired | - |
| Balance – September 30, 2019 | 9,788,796 |
| Balance – April 1, 2020 | 9,085,225 |
| Options issued | - |
| Options exercised | - |
| Options expired | - |
| Balance – September 30, 2020 | 9,085,225 |

As of September 30, 2020, the Group had 9,085,225 (2019 – 9,788,796) stock options outstanding relating to 9,085,225 shares and exercisable at a weighted average exercise price of CAD\$ 0.12 (2019 – CAD\$ 0.12) per share with a weighted average life remaining of 2.23 years.

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 April 3, 2018, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "Options"), in accordance with the Company's Stock Option Plan. The exercise price of the Options was equivalent to the Company's TSXV closing price of March 26, 2018, being CAD\$0.12 (approximately £0.067). 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.

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Expiry of options

A director, who had been granted share options, left the Group in previous quarters. As stipulated in the stock option agreement, these options expired upon the elapsing of three months from the date of leaving. During the quarter ending December 31, 2019, 703,571 (2018 - 3,500,000) stock options expired.

Warrants

| Type | Grant Date | Number of Warrants | Price per unit CAD\$ | Expiry Date |
|--|--------------|--------------------|----------------------|-------------|
| Warrants | January-18 | 180,000 | 0.16 | January-20 |
| Warrants | April-18 | 93,750 | 0.40 | May-21 |
| Warrants | June-18 | 1,280,000 | 0.07 | June-21 |
| Warrants | September-18 | 6,977,988 | 0.10 | February-20 |
| Warrants | February-19 | 10,364,640 | 0.10 | February-20 |
| Warrants | February 19 | 900,000 | 0.10 | February 20 |
| Warrants | August 19 | 47,812,500 | 0.10 | August 20 |
| Total warrants at 30 September 2019 | | 67,608,878 | | |
| Warrants | April-18 | 93,750 | 0.40 | May-21 |
| Warrants | June-19 | 1,280,000 | 0.07 | June-21 |
| Warrants | October-19 | 6,477,734 | 0.06 | October-22 |
| Warrants | August 20 | 45,000,000 | 0.022 | August 21 |
| Total warrants at 30 September 2020 | | 52,851,484 | | |

As of September 30, 2020, the Group had 52,851,484 warrants outstanding relating to 52,851,484 shares and exercisable at a weighted average exercise price of CAD\$0.03 per share with a weighted average life remaining of 9 months.

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 |

15. Trade and other payables

| | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
|---------------------------------------|----------------------------------|----------------------------------|
| Trade payables | 16,458 | 10,174 |
| Other payables | 1,281 | 557 |
| Total trade and other payables | 17,739 | 10,731 |

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16. Loans

| | Six months ended September 30 | |
|----------------------------|-------------------------------|--------------|
| | 2020 | 2019 |
| | CAD\$'000 | CAD\$'000 |
| Loan payable - current | 1,903 | 1,762 |
| Loan payable – non-current | 1,903 | 2,299 |
| Total | 3,806 | 4,061 |

| Loans – current | 2020 | 2019 |
|--------------------------------------|--------------|--------------|
| | CAD \$'000 | CAD \$'000 |
| As at 1 April | 2,210 | 3,776 |
| Transfer from non-current | 73 | 1,246 |
| Repayments | (408) | (2,298) |
| Debt reduction on settlement of loan | - | (643) |
| Interest | - | 7 |
| Foreign exchange | 28 | (326) |
| As at September 30 | 1,903 | 1,762 |

| Loans – non current | 2020 | 2019 |
|---------------------------|--------------|--------------|
| | CAD \$'000 | CAD \$'000 |
| As at 1 April | 2,260 | 3,417 |
| Loan receipt | (252) | 177 |
| Conersion into shares | (19) | - |
| Transfer to current | (73) | (1,246) |
| Foreign exchange | (13) | (49) |
| As at September 30 | 1,903 | 2,299 |

a) US\$ loan payable

As of September 30, 2020, the Group was indebted to a third-party lender for a US\$ nil (CAD\$ nil) (September 30, 2019 - US\$1,485k (CAD\$1,301k)) loan payable which no longer bears interest (September 30, 2019- bearing fixed interest at 10% per annum).

As of September 30, 2020, the loan was totally repaid.

b) 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 is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As of September 30, 2020, the principal balance of the loan was €20k (CAD\$31k) (September 30, 2019 - €84k (CAD\$121k)) which is classified as a current liability.

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c) US\$320,000 General line of credit agreement

On April 5, 2017, the Group's wholly-owned subsidiary, Zenith Aran Oil Company Limited, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("**Rabitabank**") up to an amount of US\$320k (CAD\$436k), for industrial and production purposes. The loan drawn down in one tranche and as of April 6, 2017, it was fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown, or if the REDPSA is terminated.

This Credit Agreement bears interest at a rate of 11% per annum. The loan is guaranteed by the Group. The loan granted for one-year period. The 25% of the principal amount should be paid on quarterly basis. The amount of interest to be paid on monthly basis.

On July 6, 2017, the terms of the repayment of the US\$320k (CAD\$436k) credit agreement were amended and the first repayment of the principal of US\$80k was postponed to the end of July.

On July 31, 2017 US\$20k (CAD\$21k) was repaid and the balance of US\$60k (CAD\$63k) was agreed to be repaid on September 1, 2017. On July 31, 2018, US\$40k (CAD\$52k) was repaid. A subsequent credit committee decision taken in September 2017 amended the payment terms of the loan. Zenith Aran Oil Company Limited will pay interest on a monthly basis and the principal total amount of US\$40k has been paid on September 30, 2018. The balance of the principal amount will be repaid at a new maturity date of April 6, 2019. Based on credit committee decision taken on 18th of April 2019 the payment of principal amount US\$280K postponed for one year until 6th of April 2020. Based on credit committee decision in May 2020 payment of THE principal amount has been prolonged until December 30, 2020 and weekly repayments of 8,000 US\$ will be made.

As of September 30, 2020, the outstanding principal amount was US\$287K (CAD\$404k) (September 30, 2019 - US\$286K (CAD\$379k)) and it was classified as a current liability.

d) US\$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. In March 2018, the repayment of the principal amount (US\$200k) was extended by 15 months until July 12, 2019 and then the credit committee made the decision to roll-over the loan for another year with maturity date on July 12, 2020. Based on credit committee decision in May 2020 payment of principal amount has been prolonged until 30 December 2020 and weekly repayments of US\$8,000 will be made.

As of September 30, 2020, the amount of US\$202k (CAD\$256k) (September 30, 2019 - US\$181k (CAD\$239k)) was classified as a current liability.

e) 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 September 30, 2020, the principal balance of the loan was CHF612.5k (CAD\$888k) (September 30, 2019 - CHF675k (CAD\$898k)).

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f) Convertible loan US\$1,500,000

On September 5, 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.

g) 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 is repayable on January 15, 2021.

17. Non-convertible bonds

| Non-convertible bonds | September 30, 2020 | September 30, 2019 |
|-----------------------|--------------------|--------------------|
| | CAD \$'000 | CAD \$'000 |
| Current | 294 | 104 |
| Non-current | 4,456 | 4,759 |
| Total | 4,750 | 4,863 |

| Non-convertible bonds | CAD \$'000 |
|-------------------------------------|--------------|
| Balance – April 1, 2019 | 4,958 |
| Interest | 63 |
| Repayment of bonds | (158) |
| Balance – September 30, 2019 | 4,863 |
| Balance – April 1, 2020 | 4,359 |
| Issue of bonds | 477 |
| Payment of interest | (86) |
| Balance – September 30, 2020 | 4,750 |

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.

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a. Zenith 8% EMTN - ISIN AT0000A23S79

During the financial year 2019, the Group issued Loan Notes to finance its development activities in Azerbaijan for a total amount of €3,120k (equivalent to CAD\$4,759k), with the duration of 2 years. During the six months to September 30, 2019, the Company issued additional loan Notes for a total amount of €6,880k (equivalent to CAD\$477k). The maturity date of the Notes is 20 December 2021, and they carry an interest charge of 8% per annum, payable at maturity.

On 30 June 2020, 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 2019 and December 2019 respectively.

As of September 30, 2020, the Company sold €2,647k (equivalent to CAD\$4,100k) (2019 - €2,117k (equivalent to CAD\$3,038k)) of Zenith 8% EMTN – ISIN AT0000A23S79 and at March 31, 2020 had in treasury €6,353k (equivalent to CAD\$9,840k), ready to be sold.

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")
- US\$ 1,000,000 bearing interest of 10.375 per cent per year (the "US\$-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 Vienna MTF of the Vienna Stock Exchange ("**Wiener Borse AG**"). As of September 30, 2020, the Company sold Notes for GBP326k (equivalent to CAD\$561, US\$419k or Euro 359k). The balance of the Notes issued were kept in Treasury, ready to be sold, at that date.

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.

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.

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.

Accounting situation as of September 30, 2020

At the six months ended September 30, 2020, CAD\$294k is classified as a current liability (2019 – CAD\$ 104) and CAD\$ 4,456 (2019 - CAD\$4,759) were classified as long-term.

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18. 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 period 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 US\$0.5 million which are related to the transportation costs due to the relocation of the rig which was previously installed in Azerbaijan.

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:

| | September 30, 2020 CAD\$'000 | September 30, 2019 CAD\$000 |
|--|---|--|
| Revenue | - | 2,325 |
| Operating expenses | (579) | (1,078) |
| Depletion and depreciation | (68) | (710) |
| Administrative expenses | (97) | (508) |
| Reversal of impairment from previous period | 1,326 | - |
| Finance expenses | (19) | (34) |
| Profit/(loss) from operations in the period | <u>563</u> | <u>(5)</u> |

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19. 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:

| | September 30, 2020 | September 30, 2019 |
|-------------------------------|-------------------------------|-------------------------------|
| | CAD \$'000 | CAD \$'000 |
| Balance – April 1 | 13,543 | 9,089 |
| Accretion | 41 | (31) |
| Foreign currency translation | (277) | (251) |
| Balance – September 30 | 13,307 | 8,807 |

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:

| Italy | 2020 | 2019 |
|--------------------------------------|-----------------|-----------------|
| 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 | 13.5 years | 14.5 years |

| Congo | 2020 |
|--------------------------------------|--------------------|
| 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 |

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.

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20. Earnings per share

| | 2020 | | 2019 |
|---|-------------------|----|-------------------|
| | CAD \$'000 | | CAD \$'000 |
| Net loss for the period | (3,981) | | (1,973) |
| Net loss from continuing operations | (4,544) | | (1,968) |
| Net profit/(loss) from discontinued operations | 563 | | (5) |
| Basic weighted average number of shares | 519,319 | | 296,866 |
| 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) | \$ (0.01) | \$ | (0.01) |
| From continuing operations – basic and diluted | \$ (0.01) | \$ | (0.01) |
| From discontinued operations - basic and diluted | \$ 0.001 | \$ | (0.00) |

⁽¹⁾ The Group did not have any in-the-money convertible notes, warrants and stock options during the six months ended September 30, 2020 and 2019.

21. 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 six months ended September 30, 2020 and 2019 not disclosed elsewhere in these consolidated financial statements are as follows:

- a) On April 8, 2020, Mr. Andrea Cattaneo, Chief Executive Officer & President of Zenith, advised the Company that, in relation to the Norwegian Financing, he subscribed for 8,000,000 new Common shares in the capital of the Company at a price of £0.007 (0.7 pence), CAD\$0.012 or NOK 0.09.
- b) On May 5, 2020, Mr. Andrea Cattaneo, Chief Executive Officer & President of Zenith, has advised the Company that, in relation to the aforementioned Norwegian Financing, he subscribed for 5,000,000 common shares of no-par value in the capital of the Company at a price of £0.009 (0.90 pence), NOK0.11 or CAD\$0.015
- c) Following the aforementioned dealing, Mr. Cattaneo is currently directly beneficially interested in a total of 57,984,115 common shares in the capital of the Company, representing the 5.56 percent of the total issued and outstanding common share capital of the Company admitted to trading on the TSX Venture Exchange and Merkur Market of the Oslo Stock Exchange.
- d) 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 September 30, 2020, is CAD\$28,758 (2019 - CAD\$127,878).
- e) Mr. Erik Larre, a Director of the Company, granted during past year Zenith a loan of Euro 20,000 (CAD\$31,598). The principal is repayable upon request and accrued no interest. The balance outstanding on September 30, 2020 is CAD\$31,598 (2019 - CAD\$31,598).
- f) During the period ended September 30, 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 (2019 - CAD\$nil), to develop its activities. The loan is unsecured, interest free and repayable on demand. The balance outstanding on September 30, 2020 is CAD\$24,921 (2019 – CAD\$24,921).

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- g) During the six months ended September 30, 2020 the Company paid to Mr, Saadallah Al-Fathy, a former Non-Executive Director of the Group, the amount of GBP 3.5k (CAD\$6k) relating to Directors compensation granted in past years.

22. 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 KUFPEC was agreed for a consideration of US\$500,000, of which US\$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 within December 31, 2020.

The acquisition from CNPC was agreed for a consideration of US\$300,000, 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.

23. Financial risk management and financial instruments

| | September 30, 2020 | September 30, 2019 |
|--|--------------------|--------------------|
| | CAD \$'000 | CAD \$'000 |
| Financial assets at amortised cost | | |
| Non-current financial assets at amortised cost | 12 | 408 |
| Trade and other receivables | 15,258 | 3,839 |
| Director's loan account | 136 | - |
| Cash and cash equivalents | 1,453 | 1,681 |
| Total financial assets | 16,859 | 5,928 |

| | September 30, 2020 | September 30, 2019 |
|--|--------------------|--------------------|
| | CAD \$'000 | CAD \$'000 |
| Financial liabilities at amortised cost | | |
| Trade and other payables | 17,739 | 10,731 |
| Loans | 3,806 | 4,061 |
| Non-convertible bond and notes | 4,750 | 4,863 |
| Deferred consideration | - | 483,696 |
| Total financial liabilities | 26,295 | 503,351 |

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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 six months ended September 30, 2020.

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\$1,453k (2019 – CAD\$1,681k) and trade and other receivables of CAD\$15,258k (2019 – CAD\$3,839k).

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:

| | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
|---------------------------|--|--|
| Oil and natural gas sales | 1,255 | 1,512 |
| Other | 14,003 | 2,327 |
| | 15,258 | 3,839 |

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 Argentina and Italy. 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:

| | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
|-----------|--|--|
| Current | 15,258 | 3,839 |
| 90 + days | - | - |
| | 15,258 | 3,839 |

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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 September 30, 2020, 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 30 September 2021 CAD \$'000 | Due on or before 30 September 2022 CAD \$'000 | Due after 30 September 2022 CAD \$'000 |
|---|----------------------------------|--|---|---|--|
| Non-current financial assets at amortised cost | 12 | 12 | 12 | - | - |
| Trade and other receivables | 15,258 | 15,258 | 15,258 | - | - |
| Director's loan account | 136 | 136 | 136 | | |
| Cash and cash equivalents | 1,453 | 1,453 | 1,453 | | |
| | 16,859 | 16,859 | 16,859 | - | - |

As of September 30, 2020, 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 30 September 2021 CAD \$'000 | Due on or before 30 September 2022 CAD \$'000 | Due after 30 September 2022 CAD \$'000 |
|--------------------------|----------------------------------|--|---|---|--|
| Trade and other payables | 17,739 | 17,739 | 17,739 | - | - |
| Loans | 3,806 | 3,887 | 3,036 | 851 | - |
| Non-convertible bond | 4,750 | 4,750 | 294 | 3,099 | 357 |
| | 26,295 | 26,376 | 21,069 | 3,950 | 357 |

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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 | |
|-----------------|--------------|--------|--------------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| US dollars | 1.3363 | 1.3240 | 1.3592 | 1.3200 |
| Euro | 1.5667 | 1.4453 | 1.5413 | 1.4674 |
| Swiss Franc | 1.4505 | 1.3306 | 1.4429 | 1.3391 |
| British Pound | 1.7199 | 1.6282 | 1.7199 | 1.6269 |
| Norwegian Crown | 0.1420 | - | 0.1421 | - |

The following represents the estimated impact on net (loss)/income of a 10% change in the closing rates as of September 30, 2020 and 2019 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

| | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
|-------------|-------------------------------------|-------------------------------------|
| US dollars | 91 | 62 |
| Euro | 4 | 12 |
| Swiss Franc | 93 | 90 |
| | 188 | 164 |

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 of September 30, 2020, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the six-month ended September 30, 2020 of approximately CAD \$ nil (2019 – CAD \$2k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the six month ended September 30, 2020 of approximately CAD \$nil (2019 – CAD \$15k).

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.

24. 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.

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| | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
|----------------------|--|--|
| Working capital | (2,407) | (7,772) |
| Long-term debt | 1,903 | 2,299 |
| Shareholders' equity | 8,723 | 571,845 |

The Group's cash flows from its Italian operations will be needed in the near term to finance the operations and repay vendor loans. If the publicly announced acquisitions in Tunisia will be completed with the receipt of regulatory approval, and a new 25-year license will be received in Congo for the Tilapia oilfield, the revenues generated from these assets will be required to fund the Group's development costs and activities. At this time, 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.

25. Net debt reconciliation

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

| | September 30, 2020 CAD \$'000 | September 30, 2019 CAD \$'000 |
|--|--|--|
| Cash and cash equivalents | 1,453 | 1,681 |
| Loans – repayable within one year | (1,903) | (1,762) |
| Loans – repayable after one year | (1,903) | (2,299) |
| Non-convertible bond – repayable within one year | (294) | (104) |
| Non-convertible bond – repayable after one year | (4,456) | (4,759) |
| | <u>(7,103)</u> | <u>(7,243)</u> |

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| | 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 |
| Net debt | | | | | | |
| September 30, 2018 | 4,197 | (947) | (4,011) | (385) | - | (1,146) |
| Issue of non-convertible bonds | 3,080 | - | - | (41) | (3,039) | - |
| Interest on non-convertible bonds | - | - | - | (63) | - | (63) |
| Bonds in treasury | - | - | - | - | (1,720) | (1,720) |
| Repayment of non-convertible bonds | (385) | - | - | 385 | - | - |
| Transfer from current to non-current | - | (815) | 815 | - | - | - |
| Repayment of loans | (897) | - | 897 | - | - | - |
| Net cash flow | (4,314) | - | - | - | - | (4,314) |
| September 30, 2019 | 1,681 | (1,762) | (2,299) | (104) | (4,759) | (7,243) |
| Issue of non-convertible bonds | 1,442 | - | - | (294) | (1,148) | - |
| De-recognition of bonds held in treasury | - | - | - | - | 1,720 | 1,720 |
| Repayment of non-convertible bonds | (86) | - | - | 86 | - | - |
| Transfer from non-current to current | - | (73) | 73 | - | - | - |
| Issue of loans | 2,182 | (1,255) | (927) | - | - | - |
| Conversion into shares | - | - | 521 | - | - | 521 |
| Repayment of loans | (1,889) | 1,187 | 702 | - | - | - |
| Foreign exchange | - | - | 27 | 18 | (269) | (224) |
| Net cash flow | (1,877) | - | - | - | - | (1,877) |
| September 30, 2020 | 1,453 | (1,903) | (1,903) | (294) | (4,456) | (7,103) |

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26. 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 three 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
- Other, which includes corporate assets and the operations in the Canadian, Swiss, Argentinian and Norwegian entities.

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 September 30, 2019 are included in the "Discontinued Operations" (note 18).

| PERIOD 2019 | Azerbaijan CAD \$000 | Italy CAD \$000 | Other CAD \$000 | Total CAD \$000 |
|---------------------------------|---------------------------------|----------------------------|----------------------------|----------------------------|
| Property and equipment | 1,065,259 | 8,101 | 6,951 | 1,080,311 |
| Other assets | 1,139 | 1,072 | 3,879 | 6,090 |
| Total liabilities | 492,575 | 8,187 | 13,794 | 514,556 |
| Capital Expenditures | 1,014 | 60 | 877 | 1,951 |
| Revenue | - | 344 | - | 344 |
| Operating and transportation | - | (182) | (976) | (1,158) |
| General and Administrative | - | (122) | (1,867) | (1,989) |
| Depletion and depreciation | - | (38) | (165) | (203) |
| Loss on discontinued operations | (5) | - | - | (5) |
| Finance and other expenses | - | (4) | 1,042 | 1,038 |
| Taxation | - | - | - | - |
| Segment loss | (5) | (2) | (1,966) | (1,973) |

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| PERIOD 2020 | Azerbaijan CAD \$000 | Congo CAD \$000 | Italy CAD \$000 | Other CAD \$000 | Total CAD \$000 |
|---------------------------------|---------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Property and equipment | - | 19,023 | 8,093 | 6,114 | 33,230 |
| Other assets | 275 | 10,172 | 898 | 6,195 | 17,540 |
| Total liabilities | 4,580 | 11,146 | 12,093 | 14,228 | 42,047 |
| Capital Expenditures | - | - | 8 | - | 8 |
| Revenue | | 144 | 1 | - | 145 |
| Operating and transportation | | (93) | (200) | (363) | (656) |
| General and Administrative | | (525) | (55) | (2,968) | (3,548) |
| Depletion and depreciation | | - | - | (198) | (198) |
| Loss on discontinued operations | 563 | | | | 563 |
| Finance and other expenses | | | 8 | (292) | (284) |
| Taxation | | (3) | | - | (3) |
| Segment loss | 563 | (477) | (246) | (3,821) | (3,981) |

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

| | | 2020 | 2019 |
|------------|--|------------------|------------------|
| | | CAD \$000 | CAD \$000 |
| Customer A | | - | 305 |
| Customer B | | 145 | - |

27. Controlling party

At as of September 30, 2020, the Directors do not consider there to be a controlling party.

28. Events subsequent to the period end

- On November 10, 2020, the Company announced that, in agreement with SOCAR (State Oil Company of the Azerbaijan Republic), the Contract Exploration Area of its 25-year REDPSA (Rehabilitation, Exploration, Development and Production Sharing Agreement) has been terminated.

Following this termination, the Company no longer has oil production or exploration interests in the Republic of Azerbaijan.

The Company also confirmed that its Azerbaijan subsidiary received payments for a total of approximately US\$85,000 from SOCAR for past oil production.

- On November 11, 2020, the Company obtained the revocation of the court order that had wrongfully blocked its bank accounts. As a result, an amount of approximately US\$36,000 was unfrozen and made available to provide additional funding to AAOG Congo.

The Company also provided an update on the legal claim (the "**Claim**") initiated during 2019 by its subsidiary in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.U ("**AAOG Congo**"), against Société de Maintenance Pétrolière ("**SMP**"), the rig contractor employed for drilling services in wells TLP-103 and TLP-103C of the Tilapia oilfield, following a series of significant performance failures by the SMP 102 rig (the "**Rig**") during drilling activities.

Background

On July 15, 2019, AIM quoted Anglo African Oil & Gas plc ("**AAOG**"), the previous owner of AAOG Congo prior to its acquisition by Zenith, made an announcement confirming that AAOG Congo had made the Claim following poor performance by SMP in the drilling of wells TLP-103 and TLP-103C, and the refusal of SMP to engage in negotiations to cover the significant cost overruns that had been incurred by AAOG Congo as a result of this.

The Claim was launched in the Paris commercial court against SMP to recover costs of US\$3.1 million relating to SMP's unsatisfactory performance.

In taking the decision to launch the Claim for costs against SMP the following reasons were considered significant at the time:

- AAOG Congo had maintained extensive, contemporaneous technical records of the failures of the Rig and the losses and delays that were caused as a result;
- SMP had not put forward evidence, of any kind, to suggest that Rig performance was not the cause for cost overruns; and
- Advice from International counsel in London, Paris and the Congo was that the Claim had merit.

To strengthen its position, in addition to the commencement of the Claim, AAOG Congo also withheld payment of SMP's final invoice for an amount of approximately US\$650,000, and exercised a retention right over the Rig which, at the time, was positioned within the Tilapia oilfield.

SMP subsequently retaliated by obtaining a number of unjustified seizure orders over the fixed assets of AAOG Congo in the Republic of the Congo, as well as over its local bank accounts.

As detailed in AAOG's above-mentioned announcement dated July 15, 2019, the seizure orders were unenforceable because AAOG Congo's fixed assets were owned in partnership with SNPC, the National Oil Company, and consequently could not be seized.

Further, the granting of these orders had no bearing on the merits of the Claim launched in the Paris courts by AAOG Congo against SMP.

Under the rules and conventions of the Paris commercial court, mediation between the parties engaged in a dispute is a recommended course of action. As a result, a supervised mediation meeting took place during the Autumn of 2019.

On December 11, 2019, AAOG announced that mediation efforts had proven unsuccessful and that, as a result, AAOG Congo would continue to vigorously pursue its Claim in the Paris courts.

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Zenith believes the Claim launched by AAOG Congo has merit, especially on account of the significant evidence collected at the time to substantiate its position.

Following interactions with its French legal advisers, the Company has decided to continue vigorously pursuing the Claim to recover costs of approximately US\$3.1 million. The possibility of increasing the Claim amount is also being explored in consideration of the commercial damages suffered by AAOG Congo as direct result of SMP's drilling performance.

The Company has not provided for the potential recovery of such costs in its cashflow projections. Therefore, any success in this matter would enhance the Company's cash position.

- On November 24, 2020, The Company provided the following update on its operational equipment:

1,200hp drilling rig

The Company can confirm that its 1,200hp drilling rig ("**ZEN-260**"), as well as ancillary drilling equipment, has been successfully transported outside of Azerbaijan, where it had previously been deployed for drilling activities. It is currently being held at a port storage facility, ready for immediate transportation, whilst the Company awaits clarity on its respective future oil and gas production and exploration activities in the Republic of the Congo and the Republic of Tunisia.

A-100 Workover Rig

The Company's A-100 375hp workover rig ("**A-100**") is operational and has undergone certain modifications to render it more suited to its intended operational activities. It is currently located in Azerbaijan. The Company is evaluating, in consideration of its recent acquisitions, where and how it can be best deployed and will advise the market accordingly in due course.

A-80 Workover Rig

The A-80 workover rig ("**A-80**") was inherited by the Company from SOCAR at no cost following the commencement of operational activities in Azerbaijan. In accordance with the terms of the REDPSA, the A-80 was returned to SOCAR upon completion of the handover of the Contract Rehabilitation Area, announced to the market on June 25, 2020.