

## ZENITH ENERGY LTD.

("Zenith" or the "Company")

### Detailed notification regarding acquisition of Coro Energy Italian Assets

Zenith Energy Ltd., ("Zenith" or the "Company"), (LSE: ZEN; TSX.V: ZEE; OSE: ZENA-ME), the international oil & gas production company, provide the following update in compliance with Norwegian regulatory requirements .

NOTE: this is a detailed notification in accordance with section 3.4.1 and 3.4.2 of the continuing obligations for companies listed on Merkur Market.

Reference is made to the stock exchange notice on 3 December 2019, where the Zenith Energy Ltd. (the "Company" or "Zenith") announced that it had signed a share purchase agreement ("SPA") with Coro Energy Holdings Cell A Limited ("Coro") for the acquisition of Coro's entire natural gas production and exploration portfolio in Italy ("Acquisition").

The purchase will be related to the entire issued share capital of Coro Europe Group ("Coro Europe Limited") the fully owned English Company of Coro, and Apennine Energy S.p.A., the fully owned Italian subsidiary of Coro Europe Limited. The consideration for the Acquisition is described under the heading "Consideration" below.

Apennine Energy S.p.A is the legal and beneficial owner of each of the following licences ("Licences"), in which it holds a percentage of the participating interests as set out below:

Licence	Status	Name	Type	Percentage Interest (%)	Area (km <sup>2</sup> )	Operator
Sillaro	Concession	Sillaro	Production	100 (Apennine)	7.37	Apennine
Cascina Castello	Concession	Bezzecca	Production	100 (Apennine) (90% legal interest held pending registration of transfer of 10% legal interest acquired on 1 May 2019 from Petrorep).	38.59	Apennine
Sant'Alberto	Concession	Sant'Alberto	Development	100 (Apennine)	19.51	Apennine
Rapagnano	Concession	Rapagnano	Gas Production	100 (Apennine)	8.49	Apennine
San Lorenzo	Concession	Casa Tiberi	Gas Production	100 (Apennine)	4.92	Apennine
Casa Tonetto	Concession	Sant'Andrea	To be abandoned	100 (Apennine)	4.25	Apennine

Badile	Permit	Badile	To be abandoned	100 (Apennine) <sup>(1)</sup>	154.5	Apennine
Santa Maria Goretti	Permit	T.Tesino	Appraisal	100 (Apennine)	101.3	Apennine
Carita	Permit	Carita	Appraisal	100 (Apennine)	525.3	Apennine
D.R74.AP	Permit	Laura	Gas Discovery	100 (Apennine)	63.13	Apennine

Note:

- (1) Badile is to be shut down at the cost of Sound Energy plc. Sound Energy plc is also liable for all Opex and G&A required to run the Permit (provided by Apennine) until abandonment. Sound Energy plc will also be entitled to the proceeds from the land sale. D.R.74.AP is subject to a royalty.
- (a) Each Licence is in full force and effect.
- (b) All material obligations of Apennine under each Licence have been complied with in all material respects and no act, breach or omission by Apennine (or any other parties to it) has occurred which would or is likely to entitle any other party thereto to terminate, revoke or vary such Licence before its stated expiry or not to renew, in whole or in part, or to declare it invalid. So far as Coro is aware, all material obligations of the Italian government, and any other party to any Licence, under each Licence have been complied with and no act, breach or omission by any such party has occurred which would entitle Apennine to terminate or revoke such Licence.
- (c) Any royalty payments, surface fee payments, and any licence rentals, fees and bonuses and community payments in respect of each Licence which Apennine is required to make to the Italian government, and any other party to any Licence, or any government agency, have been properly made on time and in full .
- (d) No member of the Coro Europe Group has received any written notice that the ownership of the Licences by the Coro Europe Group in any way violates any applicable laws.
- (e) No member of the Coro Europe Group has created or granted, or agreed to create or grant, a security interest or other Encumbrance in respect of the Licences.
- (f) No member of the Coro Europe Group has received written notice that any Environmental Claim against any member of the Coro Europe Group is threatened, pending or has been made and, so far as Coro is aware, all material environmental permits required to operate each Licence, as it is currently operated, have been obtained and are in full force and effect.
- (g) There are no actual or threatened inspections or investigations or any alleged violations concerning the Licences and no proceedings, actions or claims are pending impugning the title, validity or enforceability of the Licences.
- (h) The interests of any member of the Coro Europe Group in the Licences are not subject to any adverse interest and there is no agreement or obligation in place to create any adverse interest over the same.

## Consideration

In consideration for the Acquisition, Zenith shall (inter alia) allot and issue consideration shares to Coro in accordance with the terms of the SPA (and described below) in settlement of its obligation to pay the consideration to Coro (the "**Consideration Shares**").

The completion date will occur once the application, which will be submitted by Zenith to the Italian Ministry of Economic Development for the takeover of the Licences, has been approved and all the other conditions, described in the "*conditions*" paragraph below, has been met (the "**Completion Date**"). At this stage Zenith cannot give any opinion on when the conditions for completion will be met.

On the Completion Date:

- (a) Zenith shall (inter alia) pay £402,000.00 of the Consideration to Coro through delivery of newly issued common shares in the capital of Zenith (the "Tranche One Consideration Shares") at a price of £0.06 per Tranche One Consideration Share. The Tranche One Consideration Shares are subject to a six-month lockup period under which the Tranche One Consideration Shares cannot be transferred, encumbered or otherwise disposed of by Coro; and
- (b) immediately following the allotment of the Tranche One Consideration Shares, Zenith shall enter or procure the entry of Coro in its register of depositary interest holders in respect of the Tranche One Consideration Shares.

Starting on the date falling one month after the Completion Date, if Zenith's production from the Licenses under the Acquisition is at a minimum of 100,000 standard cubic meters/day for a consecutive period of four months (the "Production Condition"), then Zenith shall (inter alia) on the first Business Day following fulfilment of the Production Condition pay the remaining £3,500,000.00 of the Consideration to Coro. Zenith shall satisfy its obligation to pay such amount through the allotment and issue of such number of dematerialised depositary interests denominated in pounds sterling in respect of new Zenith Shares as shall be calculated by dividing £3,500,000.00 by the London Stock Exchange plc closing price of the Zenith Shares on the Tranche Two Consideration Shares Issue Date plus 40 per cent of such closing price (the "**Tranche Two Consideration Shares**").

## Conditions

Completion of the Acquisition is subject to the satisfaction or waiver of each of the following Conditions:

### Conditions for the benefit of Zenith and Coro:

- (a) Coro Parent Shareholder approval: the Coro parent shareholders shall approve the Acquisition at a meeting of the Coro parent shareholders by the requisite majority;
- (b) Regulatory approvals: all regulatory approvals required from the Italian Authorities and any other competent Regulatory Authority to implement the Acquisition shall be granted or obtained, and those regulatory approvals shall not be withdrawn, cancelled or revoked.

### Conditions for the benefit of Zenith only:

- (a) Coro Europe Material Adverse Change: no breach of the warranties issued by Coro shall occur that would result in or constitute a material adverse change, or any such breach being discovered,

announced or disclosed or otherwise becoming known to the Zenith or the Coro Group, between the date of the SPA and the Completion Date;

- (b) Coro Closing Certificate: Coro shall provide a closing certificate;
- (c) Inter-Group agreements: satisfactory evidence being provided to Zenith, acting reasonably, that any agreements between any member of the Coro Group and any member of Coro Europe Group are terminated with effect from Completion Date.

Conditions for the benefit of Coro only:

- (a) Zenith Material Adverse Change: no breach of the warranties provided by Zenith shall occur that would result in or constitute a material adverse change, or any such breach being discovered, announced or disclosed or otherwise becoming known to the Zenith or the Coro Group, between the date of this Agreement and the Completion Date;
- (b) Zenith Closing Certificate: Zenith shall provide to Coro a closing certificate.

**Acquisition Highlights**

- The Acquisition will add material production to the Company's existing Italian operations, resulting in the creation of a significantly enlarged, revenue generating, low-risk production and exploration portfolio.
- The Acquisition will enable Zenith to increase gross production revenue in Italy by approximately 260% (based on current production). Expected yearly gross revenue of approximately €3.3 million (equivalent to approximately £2.80 million; NOK 33.5 million or CAD\$4.9 million) will increase of about 360%, based on management estimates.
- Zenith will become one of the largest natural gas production operators in Italy with a total cumulative production from its Italian portfolio of approximately 50,000 standard cubic meters per day ("scm/day") (approximately 296 barrels of oil equivalent "BOE" per day) based on current production levels.
- The Acquisition assets generated €1.53 million in revenue (equivalent to approximately £1.31 million; NOK15.575 million or CAD\$2.26 million) in the first six months of 2019 at an average cumulative production rate of 40,000 scm/ day (approximately 234 BOE per day).
- Independently assessed 2P reserves of 7.5 BCF as of January 1, 2018 (CGG Services (UK) Limited CPR - Reference No: BP512 - dated March 1, 2018).
- The Zenith management expects production to reach 113,000 scm/day following the completion of a series of targeted interventions planned during the next 6-9 months for which all necessary approvals have already been obtained.
- Consolidation of Italian portfolio will strengthen Zenith's credentials as a natural gas producer to support the acquisition of additional natural gas production assets in other regions, including Norway.
- Enhancement of Italian operational team with the addition of highly experienced technical management fully familiar with the domestic Italian energy production environment and the potential future productivity to be achieved from the Acquisition concessions.

- Zenith's significantly enhanced natural gas production activities in Italy are expected to give the Company increased relevance in the context of Italy-Azerbaijan natural gas industry cooperation in view of the imminent activation of the TAP (Trans Adriatic Pipeline).

## MANAGEMENT AND EMPLOYEES

As of the SPA date, Coro's number of full time employees was 6.

The management of Coro consists of the following:

Leonardo Salvadori, CEO

Silvia Esposito, CFO

Zenith expects to maintain the same structure following completion of the Acquisition.

## BALANCESHEET

Key figures from the balance sheet and profit and loss account (all the values are in Euro):

Consolidated Statement of Comprehensive Income				
Continuing operations	31/12/2016	31/12/2017	31/12/2018	31/10/2019
Revenue	€ 7,559,106	€ 4,064,569	€ 1,212,215	€ 2,111,567
<b>Cost of sales</b>				
Production costs	(€ 2,122,461)	(€ 1,719,028)	(€ 1,728,709)	(€ 1,453,482)
Depletion and depreciation	(€ 9,274,983)	(€ 20,087,922)	(€ 481,080)	(€ 695,020)
<b>Gross (loss)/profit</b>	<b>(€ 3,838,338)</b>	<b>(€ 17,742,381)</b>	<b>(€ 997,574)</b>	<b>(€ 36,935)</b>
Administrative expenses	(€ 6,221,235)	(€ 5,730,085)	(€ 788,559)	(€ 1,814,345)
<b>Operating (loss) / profit</b>	<b>(€ 10,059,573)</b>	<b>(€ 23,472,466)</b>	<b>(€ 1,786,133)</b>	<b>(€ 1,851,280)</b>
Finance income	€ 34	€ 22,391	€ 18,473	€ 61,366
Finance expense	(€ 193,991)	(€ 54)	(€ 241)	(€ 41,577)
<b>Loss for the period before taxation</b>	<b>(€ 10,253,530)</b>	<b>(€ 23,450,129)</b>	<b>(€ 1,767,901)</b>	<b>(€ 1,831,491)</b>
Taxation	€ 996,366	€ -	€ -	€ -
<b>Income (Loss) for the period</b>	<b>(€ 9,257,164)</b>	<b>(€ 23,450,129)</b>	<b>(€ 1,767,901)</b>	<b>(€ 1,831,491)</b>
<b>Other comprehensive income</b>				
Items that may be subsequently reclassified to profit or loss:				
Exchange differences on translating foreign operations, net of tax	€ -	€ -	€ -	€ -
<b>Total comprehensive income for the period attributable to owners of the parent</b>	<b>(€ 9,257,164)</b>	<b>(€ 23,450,129)</b>	<b>(€ 1,767,901)</b>	<b>(€ 1,831,491)</b>

<b>Consolidated Statement of Financial Position</b>	<b>31/12/2016</b>	<b>31/12/2017</b>	<b>31/12/2018</b>	<b>31/10/2019</b>
<b>ASSETS</b>				
<b>Non-current assets</b>	<b>€ 9,653,049</b>	<b>€ 5,308,701</b>	<b>€ 5,973,210</b>	<b>€ 17,400,533</b>
Property, plant and equipment	€ 8,800,151	€ 4,555,803	€ 4,054,312	€ 16,927,634
Other financial assets	€ 852,898	€ 752,898	€ 1,918,898	€ 472,898
<b>Current assets</b>	<b>€ 5,091,478</b>	<b>€ 4,536,968</b>	<b>€ 2,011,105</b>	<b>€ 3,830,101</b>
Inventories	€ -	€ 150,000	€ 150,000	€ 283,069
Trade and other receivables	€ 4,466,073	€ 4,095,946	€ 1,589,820	€ 3,062,042
Prepaid expenses	€ 261,690	€ 75,802	€ 86,778	€ 133,432
Cash and cash equivalents	€ 363,715	€ 215,220	€ 184,507	€ 351,558
<b>TOTAL ASSETS</b>	<b>€ 14,744,527</b>	<b>€ 9,845,669</b>	<b>€ 7,984,315</b>	<b>€ 21,230,634</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	€ 10,000,000	€ 10,000,000	€ 10,000,000	€ 10,000,000
Share warrants & option reserve	€ 11,716,243	€ 24,108,894	€ 658,764	€ 9,308,361
Contributed surplus	€ -	€ -	€ -	€ -
Retained earnings	(€14,925,116)	(€29,118,081)	(€ 7,435,853)	(€ 7,435,854)
<b>Total equity</b>	<b>€ 6,791,127</b>	<b>€ 4,990,813</b>	<b>€ 3,222,911</b>	<b>€ 11,872,507</b>
<b>Non-current liabilities</b>				
Intercompany payables	€ 1,032,138	€ -	€ -	€ -
Decommissioning provision	€ 2,402,761	€ 2,912,072	€ 3,357,506	€ 7,690,583
Deferred tax liabilities	€ 60,725	€ -	€ -	€ -
<b>Total non-current liabilities</b>	<b>€ 3,495,624</b>	<b>€ 2,912,072</b>	<b>€ 3,357,506</b>	<b>€ 7,690,583</b>
<b>Current Liabilities</b>				
Trade and other payables	€ 1,719,475	€ 1,942,784	€ 1,403,898	€ 1,667,544
Intercompany payables	€ 2,738,301	€ -	€ -	€ -
<b>Total current liabilities</b>	<b>€ 4,457,776</b>	<b>€ 1,942,784</b>	<b>€ 1,403,898</b>	<b>€ 1,667,544</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>€ 14,744,527</b>	<b>€ 9,845,669</b>	<b>€ 7,984,315</b>	<b>€ 21,230,634</b>

#### INFORMATION ON ANY SIGNIFICANT ASSETS OR LIABILITIES THAT ARE NOT SHOWN IN THE BALANCE SHEET OF THE BUSINESS

There are no significant assets or liabilities that are not shown in the balance sheet of the business.

#### Further Information:

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#### **Notes to Editors:**

Zenith Energy Ltd. is an international oil and gas production company, listed on the TSX Venture Exchange (TSX.V:ZEE) and London Stock Exchange (LSE:ZEN). In addition, the Company's common share capital was admitted to trading on the Merkur Market of the Oslo Børs (ZENA:ME) on November 8, 2018. The Merkur Market is a multilateral trading facility owned and operated by the Oslo Børs.

The Company was assigned a medium to long-term issuer credit rating of "B+ with Positive Outlook" on October 9, 2019 by Arc Ratings, S.A. On November 18, 2019, the Company was assigned a "B+" with Stable Outlook debt issuer credit rating by Rating-Agentur Expert RA.

The Company operates the largest onshore oilfield in Azerbaijan following the signing of a 25-year REDPSA, (Rehabilitation, Exploration, Development and Production Sharing Agreement), with SOCAR, State Oil Company of the Republic of Azerbaijan, in 2016.

The Company's primary focus is the development of its Azerbaijan operations by leveraging its technical expertise and financial resources to maximise low-cost oil production via a systematic field rehabilitation programme intended to achieve significantly increased revenue. Zenith also operates, or has working interests in, a number of natural gas production concessions in Italy. The Company's Italian operations produce natural gas, condensate and electricity.

Zenith's development strategy is to identify and rapidly seize value-accretive hydrocarbon production opportunities in the onshore oil & gas sector. The Company's Board of Directors and senior management team have the experience and technical expertise to develop the Company successfully.

#### **Forward-looking statements**

This news release contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. More particularly and without limitation, this press release contains forward-looking statements about the potential natural gas production increases to be achieved as a result of possible well intervention activities to be performed in certain concessions of the Acquisition.

The forward-looking statements and information are based on certain key expectations and assumptions made by Zenith based on information it has received from Coro in relation to the production potential of certain concessions within the Acquisition.

Although Zenith believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because the Company can give no assurance that they will prove to be correct. All timing given in this announcement, unless stated otherwise is indicative and while the Company endeavours to provide accurate timing to the market, it cautions that due to the nature of its operations and reliance on third parties this is subject to change often at little or no notice. By its nature, such forward-looking information is subject to certain risks and uncertainties (both general and specific) that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, Zenith being unable to finance or realise growth opportunities. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof, and to not use such forward-looking information for anything other than its intended purpose. Zenith undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking information contained herein is expressly qualified by this cautionary statement.