ALIGN
RESEARCH

Zenith Energy Plc

11th January 2017

Compelling investment play on Azerbaijan – sum of the parts target of 42 pence per share

Zenith Energy has dual listed in London on the standard segment of the Official List in tandem with a private placing raising a net £2.016m at 7p per share. Zenith has recently built up its existing portfolio by adding a substantial acquisition in Azerbaijan which we believe could propel the company towards a mid-cap oil valuation on a medium – long term investment timeframe.

Acquisition in Azerbaijan potentially transformative

Located in the Lower Kura Basin and around 240km inland from Baku, the Muradxanli Block is the largest onshore oil and gas concession in the country, covering 642.4km^2 with three under-developed oil fields, the Muradxanli, Cafarli and Zardab Fields and offering both development and exploration upside.

Italian assets offer value but Argentina on hold

In Italy Zenith owns various gas production and exploration assets. It also owns interests in two small oil fields in Argentina where production has been curtailed after a recent storage tank collapse.

Sum-of the parts valuation suggests significant value

Valuing the Azerbaijan assets using a DCF model based on the new CPR report and adding in the Italian assets, while wary of further capital issues, we have a **sum of the parts valuation of 42 pence per share.** The Italian assets alone cover in excess of 50% of the market cap, with Azerbaijan providing significant potential value.

Table: Financial overview

Year to end March	2016A	2017E	2018E	2019E
Revenues (C$m)	1.96	4.32	9.37	13.024
Pre-tax profit (C$m)	(9.19)	608.026*	0.13	3.29
EPS (pence)	(0.14)	376.98	0.08	2.01
Dividend	N/A	N/A	N/A	N/A

**Includes gain on business combination*
Source: Company accounts and Align Research

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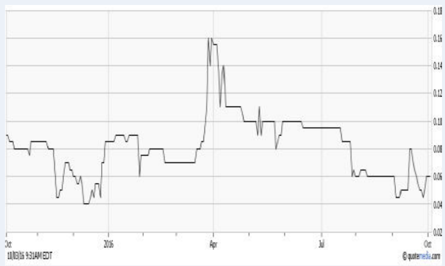
CONVICTION BUY

Key data

EPIC	ZEE.CN
Share price	C$0.14 / £0.084
52 week high/low	0.17c/0.04c
Listing	TSX, LSE
Shares in issue	98.565m
Market Cap	£8.33m
Sector	Oil & Gas

12 month share price chart



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IMPORTANT: Zenith Energy is a research client of Align Research. Align Research has an interest in Zenith Energy shares. For full disclaimer information please refer to the last page of this document.

Introduction

Zenith Energy is a TSX Venture Exchange listed company which has just completed a dual-listing in London raising £2.016m net via a UK private placing. Zenith has recently built up its existing portfolio by adding a substantial acquisition in Azerbaijan which we believe could propel the company towards a mid-cap oil valuation on a long-term investment timeframe. Management have proven to be adept at targeting and acquiring material assets being divested where technical field rehabilitation skills can add long-term value. The Azeri acquisition now adds to its existing portfolio in Italy and Argentina.

Source: Zenith Energy.

We are attracted to the company, recognising that Zenith is now the operator of one of the largest onshore oil fields in Azerbaijan.

The lead up to the Azeri acquisition was clearly flagged over a year ago. Yet, after the Competent Person's Report was published, there was no price movement. Investors remained benign. Were they failing to see the opportunity? Were they still reeling from the curtailment of Argentinian oil production (and revenues), worried by non-cash debts or simply unable to comprehend a company like Zenith could complete a deal in the stomping grounds of the oil majors? We suspect the reality is a little of each. The completion of the London placing should provide a new platform for a realistic valuation re-rating.

The key Muradxanli Block produced some 14,010bbls over the first 49 days of operatorship to 30th September. With the transfer of existing production to Zenith's new SPV subsidiary, the Aran Oil Operating Company, Zenith generated gross revenues of CAD $659,000 within the quarter post and enjoyed a smooth transfer between all parties with no interruption of petroleum production operations. Moreover, payments for the oil produced were delivered promptly unlike in other parts of the globe and which has bedevilled valuations of the Kurdistan players like Genel and GKP.

We believe, considering the still material undervaluation of the stock relative to global peers on a 2P/EV basis, that there has been a level of market scepticism about the Azeri deal

The works programme detailed here has now begun, utilising the existing work-over operation on the field with production up by some 7% to 295 STB/d. At a production rate of 300 barrels per day, these payments alone (and at a flat oil price) would equate to approximately $360,000 US per month. Of course, these receipts increase in the event of the oil price continuing to firm.

Crude sales have been formally delivered into the international pipeline network from the Shirvan oil terminal and then internationally, through Transneft, ultimately reaching the port of Novorossiysk on the Black Sea. This function is all handled via the network of SOCAR pipelines, and through the Marketing and Operations Department of SOCAR (“SOCARMO”) for a nominal 1% sales commission.

Six month financials

During the half-year, Zenith generated oil and natural gas revenue, net of royalties, of $776,839 and $282,661 respectively, totalling an aggregate of CDN$1,059,500. The results were skewed due to the accounting treatment of the Azeri acquisition and which, under International accounting standards resulted in net reported profits during H1 of CDN$ 608,073,798. **The key issue for the company and its investors going forward however will be the capturing of value from the 69.7 million net barrels that independent engineering projects show may be recovered from the fields.**

Directors and Proposed Directors

Management is, as ever, the key to success of any company. The following personnel are either current directors of Zenith or are proposed as directors to strengthen the board.

Andrea Cattaneo, CEO and President

Andrea Cattaneo graduated from the University of Genoa in June 1978, achieving a “pieni voti” in Economics. He studied Tax Law as a post graduate at the University of Bologna. He started to work trading with the USSR and when he started banking in London was assigned to lending with socialist countries before being headhunted by LFC London Forfaiting Company where he started to visit socialist countries meeting sovereign borrowers.

With this attitude he arranged the first loan in history to Vietcombank, the Bank of Foreign Trade of the Socialist Republic of Vietnam in 1987. Later, the relation with Vietnam led him to leave banking to take a more entrepreneurial role trading textiles, hides and crude oil from Africa. This finally brought him into a lead role in oil trading, exploration and production businesses, advising emerging countries at a governmental level. He also has experience in manufacturing.

Alan Hume, Chief Financial Officer

Alan Hume is a qualified accountant with over 30 years’ accounting, business and corporate finance experience in both the energy and construction industries. Mr. Hume has previously been chief financial officer for an AIM listed oil and gas exploration company, for a privately held Canadian oil and gas exploration and production company and for an international construction joint venture in the United Arab Emirates. He also has significant experience in senior finance director and commercial director roles in the oilfield services and power production sectors. Mr. Hume has operated in the UK, US, Norway, Turkey and other European countries, as well as in Southern Africa. He was admitted as a Fellow of the Chartered Institute of Management Accountants in 1999.

Dr. José Ramón Lopez Portillo, Chairman

Dr. José Ramón Lopez Portillo is former the chairman of FAO (the United Nations agency for food and agriculture) and a leading researcher on Mexican energy security. He was Vice-Minister of Evaluation (Ministry of Programming and Budget) of Mexico from 1980 until 1982. From 1982 to 1989 he was the Permanent Representative of Mexico to the United Nations Organizations in Rome, Italy. He served as Chairman of the Council of the Food and Agriculture Organization of the United Nations from 1993 to 1998. He has a Doctorate (D. Phil) in Political Sciences and International Relations from Oxford University. In 2002 he founded the Centre for Mexican Studies at Oxford University and has established a large network of international contacts throughout his career.

Dr. Dario Sodero, Independent Non-Executive Director

Dr. Sodero received a Doctorate in Geological Sciences (Hons.) from the University of Torino, Italy in 1967. He has served as an Independent Non-Executive Director of Zenith Energy Ltd. since June 2009 and is an experienced energy industry executive with 40 years of experience. Currently head geologist of Zenith Energy he has held management positions with various publicly traded Canadian companies since 1980.

Erik Sture Larre Jr., Chairman of Audit Committee

Erik Sture Larre, Jr., served as Deputy Chairman of Sparebanken Nord-Norge (branded as SpareBank 1 Nord-Norge). He specialises in real estate, banking and finance and has experience in oil & gas. He has wide geographical experience in many countries in East Europe, Southern Europe and the Middle East and was both a former director & the chairman of the audit committee of Sparebank, Norway. An Independent Non-Executive Director of Zenith Energy Ltd., Larre is an Engineer and holds a Master's Degree in Civil Engineering from Milan Polytechnic University.

Francesco Salimbeni, Director

Francesco Salimbeni is President and Chief Executive Officer of ADECO Technologies. He worked for Snam Progetti (now part of listed company SAIPEM S.p.A.), the largest Italian oil & petrochemicals engineering company, where he became first General Manager then Managing Director. Francesco has 50 years of expertise in technical and management positions being directly involved in the implementation of more than 200 oil and gas, chemical and petrochemical plants throughout the world. He is also an enhanced oil recovery specialist. He has designed the only underground refinery in the world.

Luigi Regis Milano, Managing Director of Zenith's Italian Operations

Luigi Regis Milano has 35 years of oil industry experience. He has served as a director/owner of a large oil refining, processing and trading company and as director of listed company, Autostrada dei Fiori S.p.A., Currently, he is also director and part owner of Dpl Lubrificanti SPA, a private bio-diesel refining company based in Italy, and managing Director of Canoel Italia S.r.l., Zenith's Italian subsidiary.

Andy Morrison, Proposed Independent Director, UK based

Andy Morrison is a UK national with a chemical engineering background and 34 years of oil and gas experience, including 17 years with Shell. He was Executive Director of ASX listed Zeta Petroleum and AIM listed Silvermere Energy.

Asset Base

Zenith operates the largest onshore oil field of Azerbaijan through a fully owned subsidiary. It has oil fields in Argentina and significant gas producing assets in Italy. The company's Italian operations include the production of electricity and of condensate. We intend to focus on the new Azeri acquisition in this note, as we believe it is an order of magnitude more valuable than the Argentinean and Italian assets – in many respects it is a reverse into the company. We will run through the Argentinean and Italian assets later.

Azerbaijan

In September 2015 Zenith Energy Ltd opened an office in Baku, Azerbaijan as part of the management's nascent plans to become an operator in the country. Within a month, it passed qualification to become an operator in the country when a presidential decree was issued. This directed the State Oil Company of the Republic of Azerbaijan (SOCAR) to negotiate a Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) with Zenith over rights to an onshore oil concession known as the Muradxanli Block.

Located in the Lower Kura Basin and around 240km inland from Baku, the Muradxanli Block is a huge concession, the largest onshore oil and gas concession in the country, covering 642.4km² with three under-developed oil fields, the Muradxanli, Cafarli and Zardab Fields and both development and exploration upside.

Oil agreements background

Worldwide, the oil and gas industry operates in accordance with a number of different types of agreements. These agreements generally fall into one of four categories (or a combination of the categories): risk agreements, concessions, production sharing agreements (PSAs, also known as production sharing contracts, PSCs) and service contracts.

Traditionally, concession agreements were granted pre-1940 for large areas and sometimes even for the whole countries e.g. Iraq. These grants were for long periods (50 to 99 years) and gave International Oil Companies (IOC) total discretion and control over exploration and subsequent development decisions.

This structure was seen to cause developments to be delayed, postponed or sometimes pushed into the long grass, with investments parked and no actions taken, against the host government's best interests. The contracts rumbled on and there was no structure to force relinquishment of non-explored areas and worse still, from the perspective of the host state, the concession agreements granted petroleum "in situ" to the international oil company with both market and pricing powers. Negotiated royalty structures, tax structures and bonus structures all were eventually called into question.

After the Second World War things began to change as host governments relocated the economic rent costs, with the aim of increasing passive profit sharing. Towards the 1960s and 1970s governments moved further too, demanding more active profit sharing through National Oil Company (NOC) joint ventures (JV) participations.

In a participation agreement the NOC is "carried" by an International Oil Company (IOC) with the NOC effectively burdening the IOC by not fully compensating the IOC for the risks assumed during the exploration phase which is necessary to making a commercial discovery. In this structure the IOC faces the full losses, which pushes the IOCs to look for only the biggest prizes or safe areas with high success rates. The IOC benefits by having the NOC as a partner when faced with nationalistic treats but the pendulum had swung too far and many assets and areas became sub-material targets to the majors and countries were being bypassed for investment.

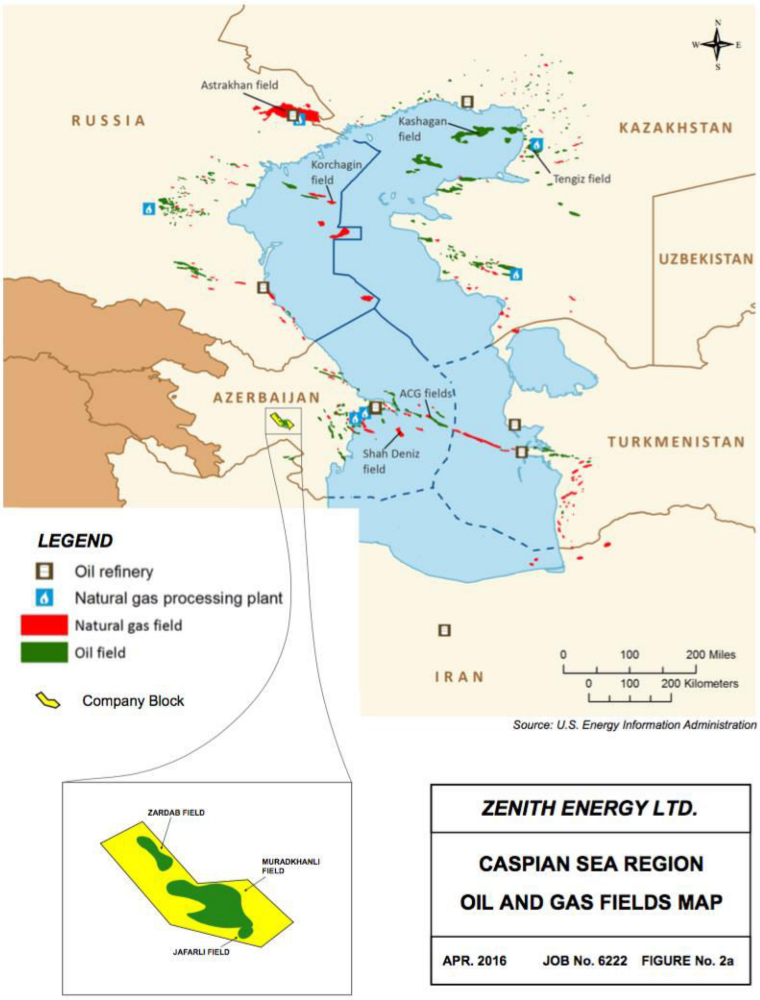
So, starting in Africa and Asia, Participation Agreements or Production Sharing Contract (PSC) structures were developed between the National Oil Companies and the International Oil Companies to develop new oil and gas fields, for which NOCs had limited experience and/or financial resources.

Zenith's REDPSA (Rehabilitation Exploration Development Production Sharing Agreement) is almost a new 'third generation' PSC whereby the company is participating in a 'field-revival' (redevelopment) PSA which on the one hand brings inward investment technical ability and modern environmental implementation for the country/national partner, but does not over-burden the IOC.

Negotiation and Handover

Negotiations took a while to process as agreements passed through the various legal processes but essentially by 30th June 2016 an agreement had been reached, a new law passed through the Parliament of the Republic of Azerbaijan and the whole process signed into law by the President of the Republic of Azerbaijan.

Zenith would receive all the rights and obligations associated with an 80% participating interest, including current and future production when technical transfer of the operatorship could be completed. Operatorship on the block has been transferred to a new SPV, Aran Oil Operating Company Limited ('Aran'), which is jointly owned by Zenith Energy Limited (80%) through its 100% owned subsidiary Zenith Aran Oil Company and by local NOC SOCAR (20%). SOA are the SPV formed by SOCA in the joint operating group with Aran.



Source: Zenith Energy.

On 11th August 2016 the handover was finally signed off, with Aran taking over full operatorship of the three fields and the defined block. As Aran took over the existing commercial assets of the Muradkanli INM, the previous producing unit of SOCAR, the transfer was regarded as a business combination under IFRS guidelines and the independently measured net fair-value of Zenith's net acquisition was recorded in the profit and loss of Q1 FY2017 under IFRS 10 reporting.

The complications of corporate combination and accounting aside, the new joint entity Aran is now the de-facto operator of the block, with Zenith the majority (80%) shareholder in its new partnership with SOCAR (20%). **This is one big task completed, and a huge result for a minnow of a company in an environment populated by majors and supermajors.**

Azerbaijan Country Profile

Azerbaijan is a Former Soviet Union (FSU) country located in the south Caucasus region, bordered by the Caspian Sea to the East, Armenia and Turkey to the west, Russia to the north and Iran to the south.

Since independence from the Soviet Union in 1991, Azerbaijan has established itself as one of the more stable and affluent countries in Central Asia with a population of circa 9.5 million people, mostly of Turkic ancestry. Because of the Soviet legacy, and subsequent affluence from petroleum revenue, literacy and other human development indices are relatively high, albeit that as a FSU country it would also be fair to say that its democratic, commercial and financial institutions are still evolving. Azerbaijan has an established oligarchy where political and commercial powers are concentrated in line with the systems evolved throughout Asia after the fall of the Soviet Union.

Despite the control maintained by the ruling elite on political and economic matters, the country enjoys relative stability because of the wealth gained from petroleum production, even though it's distributed unevenly, as is consistent in the region. However, the stability of the political, operational and economic structure has realistically allowed the country to attract continued investment to develop the extensive energy reserves. Citizens also largely enjoy civic liberties, unlike many of the surrounding Arab and central Asian republics.

Outsiders frequently perceive there to be higher inherent risks in doing business in the country than are actually the case. In essence, the salient facts are pretty simple:

- **Azerbaijan has an important place in the global oil and gas industry being a key hub on alternative transportation routes for central Asian oil and gas outside of Russian territory. This hub has been fully-functional and reliably engaged with the international markets for more than 20 years without major dispute.**

- **Native Azerbaijani production has fuelled Europe's energy needs.**

- **Azerbaijan's international partners appreciate** the geopolitical importance of the country and are keen to help maintain its stability.

- **Azerbaijan's relatively secular populace and government provide an important bulwark against the Islamic militancy that has created regional chaos.** This is especially important given Azerbaijan's location just to the north of Iran. For this reason, the Azerbaijani regime receives explicit and implicit support from most Western quarters. The government maintains a good relationship with Turkey, the dominant remaining regional power, despite Turkey's divergence from its previous secular purity under Erdogan.

Oil and Gas Production

Azerbaijan has some of the earliest recorded petroleum production. As early as 1842, 136 wells were producing about 24,000 barrels of oil per annum and by the 1870s there was a full-scale oil boom, with a concession system introduced. Russian, Anglo and Dutch companies competed for and controlled the oil production in the country. By 1901, Baku produced 212,000 barrels of oil per annum, about half of the world's production at that time.

After World War 1, the short-lived Democratic Republic of Azerbaijan was annexed by the Soviet Union, mainly in a grab for its oil assets and having been a source of fuel for the inter-war and WW2 era, oil production started to decline because of over-production and under investment. Significant discoveries were made onshore, but Soviet technologies were not adept at exploring deep offshore waters.

During the last 20 years of the Soviet regime, investment was increasingly diverted from Azerbaijan to western Siberia, which further precipitated production decline with production only recovered to the peak rates of Soviet times in 2005. In more detail, petroleum and other liquids production in Azerbaijan increased from 315,000 bopd in 2004 to slightly more than 1 million bopd in 2010. However, production has generally declined since then, falling to about 850,000 bopd in 2015.

Exports and Pipeline Capacity

Azerbaijan has three crude export pipelines although the country also exports small amounts of oil by rail. The completion of the Baku-Tbilisi-Ceyhan (BTC) pipeline has significantly transformed Azerbaijan's oil industry, unlocking an outlet to world markets for crude oil.

Most of the oil produced in Azerbaijan, is medium-light, sweet crude and is exported through the BTC pipeline, marketed as BTC blend (36.8° API gravity, 0.15% sulphur). The BTC pipeline allows for exports of lighter and sweeter crude than Russia's Urals blend and provides capacity out of the Caspian region circumventing the congested Turkish straits and avoiding Russian territory.

The smaller Baku-Supsa pipeline carries a similar grade of oil, which is marketed as Azeri light (35.2° API gravity, 0.14% sulfur) while small volumes of lower-quality oil are exported through the northern export pipeline to Russia. This oil is blended in Russia and marketed as Urals blend. The quality of Urals blend can vary, but the oil is generally a medium, sour crude.

Azerbaijan exported about 707,000 bopd of crude oil in 2014, according to Azerbaijan's State Statistical Committee. Azerbaijan's crude oil exports peaked in 2010 when they averaged slightly more than 900,000 bopd but exports have fallen every year since then as production has declined. **The REDPSA issued is part of the national strategy to diversify away from the majors alone and test smaller private enterprise capacity for growing production.**

In July 2010, near the peak of ACG production and Azerbaijani exports, the BTC pipeline transported slightly more than 1 million bopd of oil. However, the pipeline has recently run with significant spare capacity, exporting on average 720,000 bopd in 2015, considerably below its capacity of 1.2 million bopd. SOCAR has proposed reversing part of the Northern Route pipeline - from Baku, Azerbaijan to Makhachkala, Russia - to bring more Russian oil to Baku for transport through the BTC pipeline to Ceyhan. This change would allow the Russian oil to bypass the crowded Turkish straits. Russian authorities have dismissed the idea as uneconomic.

The oil produced by Zenith and the other onshore fields is categorized as Urals and is transported either through the BTC or through the Baku Novorrsysk pipeline, delivering the oil to buyers in the Black Sea. Urals crude oil is one of the most traded oil types in the world.

Playground of the majors… and now of Zenith Energy

BP is the largest foreign investor in Azerbaijan and the largest shareholder in the Azerbaijan International Operating Company (AIOC) which was formed to develop the offshore Azeri-Chirag-Gunashli (ACG) complex of fields. Other companies with an interest in the ACG fields are Chevron, Inpex, Statoil, Turkiye Petrolleri, ExxonMobil, SOCAR, ITOCHU, and ONGC Videsh. The current production-sharing agreement (PSA) expires in 2024 but negotiations to extend the PSA until 2040 or later are ongoing between AIOC and the Azerbaijan government.

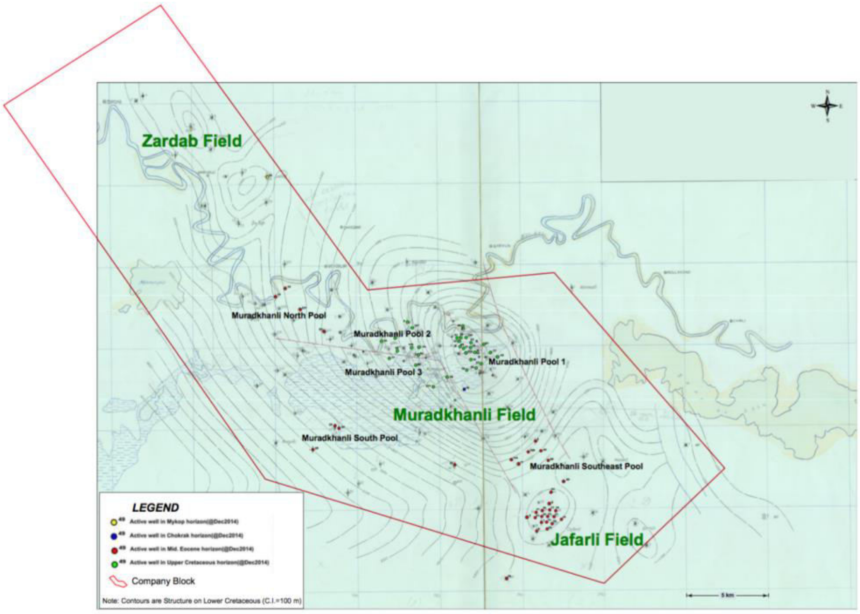
State Oil Company of the Azerbaijan Republic (SOCAR)

The Ministry of Energy formulates state energy policy and regulates the national oil company, the State Oil Company of the Azerbaijan Republic (SOCAR). The Ministry is also tasked with attracting foreign investment and conducting negotiations on pipelines and production-sharing agreements.

SOCAR, Zenith’s partner in the country, is directly involved in exploring and producing oil and natural gas in Azerbaijan, producing around 164,000 bopd, or about 20% of Azerbaijan’s total oil output. SOCAR also operates the country's two refineries, runs the country's pipeline system, and it manages the country's oil and natural gas imports and exports. In addition, much of Azerbaijan's oil is marketed by the SOCAR’s Geneva-based subsidiary, SOCAR Trading, which has been operating since 2008.

Zenith’s Azeri asset: Muradxanli Block

The Block covers five separate fields/oil pools, with two ring-fenced out of the REDPSA agreement.



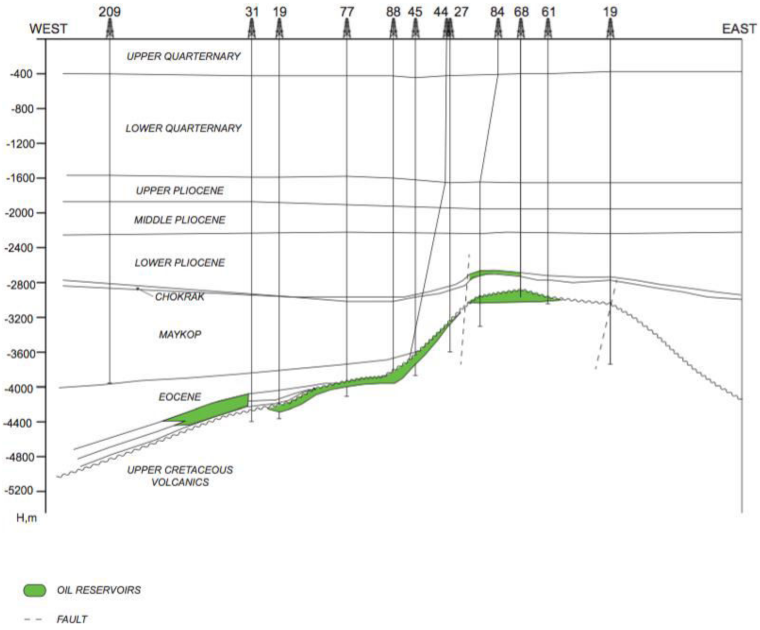
Location map illustrating well and locations and relative locations the named oil pools/fields. Source: Zenith Energy/Chapman Engineering

The three fields now under Zenith’s operatorship are the Muradxanli, Cafarli and Zardab Fields. Gravity, magnetic and seismic surveys in and around the land area were undertaken in the 1960s, with several structures selected for drill-testing and discovery wells spudded in the 1970s & 1980s. The site is of very low topographical relief in a featureless landscape with shallow marsh areas that desiccate in the summer months. **Much of the area is largely unexploited and though the ability to drill horizontal wells has not been tested in the area, we do not foresee many challenges ahead with rig mobilization.**

The Muradxanli Field

The majority of current production and the currently recognised reserves are attributed to the Muradxanli field, while the Cafarli and Zardab fields are both relatively under-exploited.

Discovered in 1971, the Muradxanli Field has predominantly produced from an unconventional Upper Cretaceous volcanic reservoir first brought into production in 1972, with additional oil produced from a sedimentary Eocene reservoir zone on the flanks of the structure discovered in 1972. The Eocene section was brought into production in 1975.



Cross-Section of the Muradxanli Field. Source: Zenith Energy/Chapman Petroleum Engineering

In aggregate, the field has produced over 17.6 million barrels of 27o API gravity crude oil, 16 million barrels from the volcanic reservoir zone and 1.6 million from the Eocene section from 45 wells. The two smaller associated oil pools were discovered post the major development stage of the main pool in the 1980s, now named the Carfarli and Zardab Fields.

The Cafarli and Zardab Fields

The Cafarli Field, located 12km to the south of the Muradxanli Field has 19 currently productive wells and has produced 1.73 million barrels of 27^{o} API gravity crude to-date from a similar Eocene reservoir to the main field. Production commenced in 1984. The Zardab Field, located to the northwest of the main Muradxanli Field was discovered in 1981 but has seen only minor production because of sanding issues; a problem in the past but assessed to be relatively simple to address with modern gravel-pack completions.

Outline of the REDPSA

Zenith will be the operator of the concession for an initial 25 years, having an 80% working interest with SOCAR, through SOA retaining a 20% working interest. As part of the agreement Zenith will pay SOA’s 20% of costs until production reaches 620 bopd, or twice the 2014 average production, for a period of 12 months. After this, opex and capex recovery may be made from SOA’s share of cost and profit oil under the production sharing agreement.

Zenith will deliver compensatory petroleum to a total of 315,000 barrels at a rate of 5% in the first year and 15% thereafter until the total is met. This is effectively a royalty charge in the early years of Zenith’s operatorship. The company will be entitled to recover its costs from production (after the compensatory petroleum). Operating costs can be recovered in full with capital costs accrued to a maximum of 50% of remaining production. All unrecovered costs can be carried forward with interest charged against the unrealised returns until fully recovered.

Profit oil is shared between SOCAR and the joint operating company (Aran) as determined by an R-factor calculation which is broadly a function of the cumulative capital expenditure on the redevelopment area (the exploration area forming a separate cost pool). When capital expenditure is high, the profit share to the contractor group is low at 25-55%. This however increases in increments up to 80% once the capital expenditures are fully recovered.

Within 12 months of the effective date of transfer, a new fund will be agreed and set aside to provide for the future abandonment of the field, but contributions to the fund will be drawn from the operating cost pool within the REDPSA.

Current production

Combined production from the Muradkhanli and Cafarli fields was averaging 310 STB (stock tank barrels) per day in 2015 when the independent petroleum engineers studied the available data. However, we understand that aggregated production decline has been lower than the engineering studies projected. Nevertheless, in essence twelve relatively strong wells produce around 245 STB/d, with the remaining 52 producing c.65 STB/d (at the time of the original engineering review). Current production of oil under Zenith’s flag started on 11th August 2016, with a registered average daily production of 300 STB/d.

First Phase of Plans

Zenith’s first goal is to bring production up to the level which triggers the clock on the 12-month period before SOA are fully effective working interest partners. **This means bringing production up to 600+ bopd as rapidly as possible, which is relatively straightforward and should be achievable with a 12-month timeframe.**

Zenith initially plans to work over 39 of the 52 wells on the Muradxanli and Cafarli Fields. Engineering projections indicate that once worked-over 21 wells will produce at 15 STB/d and 18 wells will produce at 10 STB/d. The highest return wells will be targeted first, followed by the medium wells, then the five Maykop-type wells in the Zardab Field will be brought on – here sanding issues need to be addressed (most likely with gravel pack completions). We have anticipated that simple workovers will cost C$50,000, and more complicated workovers C$100,000. Development well costs will be lower than the main engineering projections at around C$4 million using similarly more cost effective rig contractors.

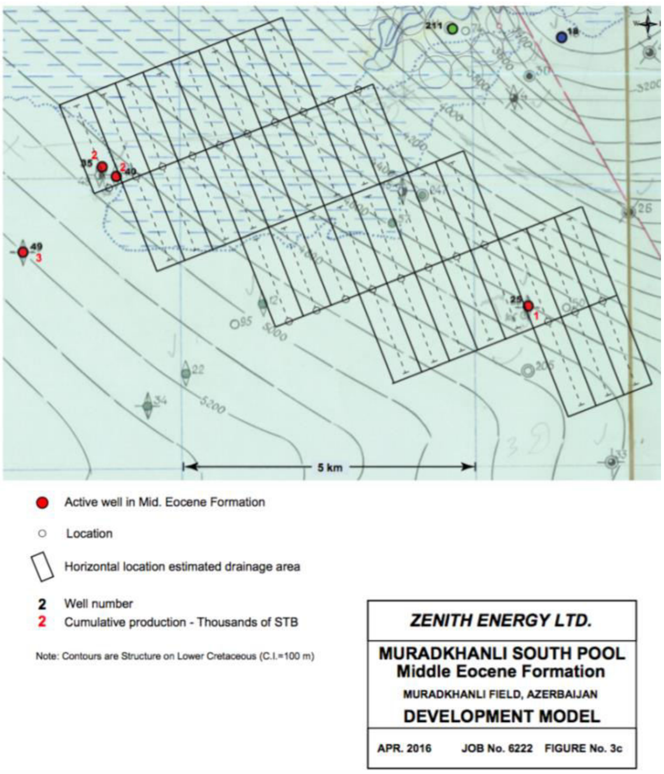
Current engineering plans, as detailed in the CPR, foresee Zenith initially upgrading the oil gathering system and the central gathering facilities to improve safety, efficiency and fluid handling and these costs are accounted for in our model. These steps will be important in fulfilling the environmental terms of their appointment, as local standards have, to date, fallen below those that would be accepted internationally. This we expect will be carried out in the early phase of the field redevelopment in preparation for the later drilling phase. However, we do anticipate that Zenith will drill one new development well in 2019 prior to future horizontal well-developments, as envisaged in the probable reserves portion of the engineering which is the real core of future value.

We understand that the asset has had no investment since Zenith signalled its interest, and the last new well was drilled around five years ago. It is estimated that there are around 200 people employed on site, which is an excess as social responsibility is a key element of Zenith's tenure. We do not anticipate a rapid change here. However, we do expect Zenith to bring in international specialists optimise the management and technical work on the block.

The full-field development plans

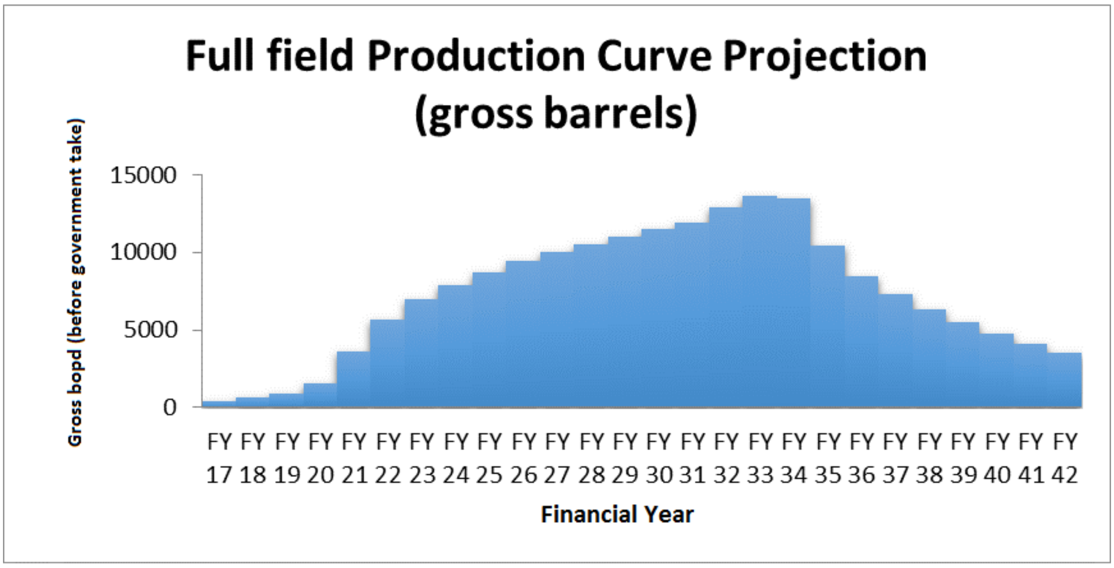
Once this first workover phase of the REDPSA is out of the way then the real work begins. **The real work of course is to fully re-develop the field by completing drilling work that the engineers estimate to be a further 145 development wells across the three oil pools on the block.** This includes for the first time 58 horizontal wells. **It is in the fulfilment of this long-term plan that Zenith will capture the value from the 69.7 million net barrels that engineering projects show may actually be recovered from the field.**

These projections are, we believe, entirely realistic despite being very large numbers for a little company. They are just straight-forward step-outs of a development front drilled within an existing, albeit unconventional, field. The diagram below illustrates the well spacing and drainage pattern for a suite of 36 horizontal wells from 21 pads to develop the mid-Eocene section of the 'south' oil pool. These sort of works are commonplace in the US these days and have been for years. **The novelty here is getting access to the asset (which has been accomplished already) and applying the techniques (already on the drawing board with preliminary engineering in the CPR).**



Source: Zenith Energy, CPR.

From 2018 onward in the CPR version of the plan, 3D seismic programs are anticipated to fully delineate the pools and optimise drilling locations. The chart below illustrates the average daily production envisaged from full-field development following these future works.



Italian assets

Zenith's entry into Italy was on an invite to bid for a concession from the Italian Ministry of Economic Development back in 2009. The application was accepted in 2011 on the basis of the company's strong technical presentation which outlined how Torrente Vulgano, formerly held by ENI, could be returned to production. An owned subsidiary of Zenith, Canoel Italia Srl, was established in 2011 as an SPV to accept Italian licenses.

Producing assets:

8 operated onshore gas production concessions covering 837km^2

Masseria Grottavecchia (20% working interest)
San Teodoro (100% working interest)
Torrente Cigno (45% working interest)
Misano Adriatico (100% working interest)
Sant'Andrea (40% working interest)
Masseria Petrilli (50% working interest)
Canaldente (100% working interest)
Torrente Vulgano (100% working interest)

3 non-operated onshore gas production concessions:

Masseria Acquasalsa (8.8% working interest)
Lucera (13.6% working interest)
San Mauro (18% working interest)

Exploration Permits & Applications

1 operated exploration permit:

Montalbano (57.15% working interest)

1 non-operated exploration permit

Colle dei Nidi (25% working interest)

2 exploration applications:

Serra dei Gatti (100% working interest)
Villa Carbone (50% working interest)

The bulk of Zenith's licence portfolio was acquired from Mediterranean Oil and Gas Plc's (MOG) Italian subsidiaries in 2012. Most of the Italian properties are located in the South of Italy in the Puglia, Basilicata Molise, Abruzzo and Marche regions, covering an aggregated total area of 1,285,41km^2 all associated with the Apennine Foredeep Basin.

The production concessions are subject to different expiry dates. Lucera is set to expire in 2017, but the operator is set to apply for a further 10-year extension. Missano and San Mauro are scheduled to expire in 2020 but extensions are expected, based on the remaining reserves. Torrente Congo is scheduled to expire in 2019, with Zenith intending to renew the licence in alignment with its future additional development plans.

At the point of acquisition by Zenith MOG's gas licenses were producing approx. 13,800 SMC/day whereas today three of the production concessions are delivering gas with present average monthly net production of 250,000 SMC (8,83 MCF) of gas and 12.5 tons of condensate.

On 1st October 2015, Zenith acquired co-generation equipment and facilities from the owner of a plant that treats gas from the Masseria Vincelli 1 well in the Torrente Cigno concession in Italy. The acquisition has enabled the company to produce electricity from the gas produced by the Masseria Vincelli 1 well which it sells directly into the national energy grid in Italy - the company now earns higher electricity rates on those gas volumes.

Indeed, the Torrente Cingo License demonstrates Zenith's entrepreneurial spirt in that the formerly cheap, below average town-gate priced sour-gas is now used to supply the wholly owned co-generation electricity plant which Zenith acquired in October 2015 with electricity generated at approx. 880 MWh per month.

Production in Italy has been variable over the last year, with various operational works making for 'punctuated production' however these works have generally borne fruit. For example, in early 2015 careful active reservoir management led to improved performance of the Masseria Vincelli-1 well improving gas deliverability and achieving a 20% reduction in water production compared to the provisions of the reservoir study. **We understand management anticipates a flattening of the decline of the well through similar active management programs over the year or so. Overall, Zenith has an ambitious program to enhance the Italian daily gas production rate in the Puglia Region by 100% through a technical program employing additional workovers that will be financed using local cash flow.**

The company's technical team has conducted in depth geological, geophysical and engineering evaluations on all the Italian properties. Drilling plans for side-track drilling operations at the Masseria Petrilli property and drilling of a new well at the San Teodoro field are being evaluated.

Improvements of facilities at San Teodoro will be completed by the tie-in of new dehydration equipment. While the field has been capable of production, a lack of regional infrastructure had limited additional expansion in the past.

The company is evaluating the possibility of drilling a deviated well into the crestal area of the Torrente Salsola structure in order to unlock residual reserves, and it is also planning to implement an innovative plan for the exploitation of the Traetta-1 that it can be sold through the national pipeline grid. This development plan was recently submitted to the relevant ministry in Italy, for its review and approval. The company estimates that approval should be received in December 2016.

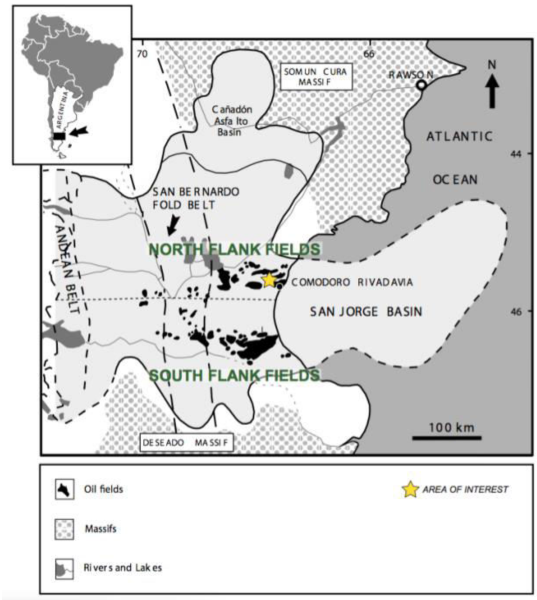
With regard to the exploration licenses, Zenith's technical team has evaluated and ranked the geological, geophysical and engineering prospects of each of the properties and will, in due course, formalise plans to either participate directly in potential works or far-out its interests to third parties/ most likely we suspect on a carried basis.

Argentina

Zenith owns 100% interests in two small adjacent oil fields in Argentina, the Don Alberto and Don Ernesto in the San Jorge basin, Chubut Province. The two fields cover approximately 3km^2 producing a relatively heavy 18.5^{o}API sweet crude equivalent to Escalante crude from 16 wells in depths shallower than 3,000 ft. Both fields produce from multiple Cretaceous sand completions below a shallow glauconitic marine formation, commencing production in 1998.

Total proved developed reserves are independently estimated at 114MSTB, with incremental probable developed reserves of 75MSTB for the same wells and probable developed non-producing reserves of 410MSTB assigned to 11 suspended wells that require workover.

The permits are perpetual, without timed expiry, with no tax payable on the sale of oil. In the future, as Zenith's wells currently isolate deeper oil shows, there may be oil-behind pipe that could be produced through future re-completions. During 2015, workover operations at Don Alberto and Don Ernesto were proving successful, with peak production seen in March 2015 at a rate of 5,210 barrels during the month. This was, at the time, priced at a significant premium to world benchmarks crudes with Zenith profiting from the dual effect of local USD sales price subsidies against a devaluing Argentinean peso cost base.



Source Zenith Energy: Geographic location map, and regional basinal map together with a local plat map of the licenses (albeit without northing or relative scale indicator).

Engineering guidance was that annual production would be 60,000 barrels during FY 2015, up by 18% from 2014 production but this was not to be the case. In August 2015 a YPF owned storage tank collapsed at the local gathering and transport hub on the coast under high wind conditions, resulting in an oil-spill of some 22,000 barrels.

Although not in any way responsible nor directly affected, Zenith's assets are surrounded by a complex of YPF oil fields and facilities and the effect of the disaster was a gathering and transmission-line stoppage, and a sales halt. Production was curtailed and after a number of false-dawns, the situation has carried on for much longer than anybody could have anticipated. This has severely affected Zenith's Argentinian oil production and business unit revenues.

We have no real idea when production will revert to pre-accident levels and it is out of the hands of Zenith's management being a 3rd party issue**. So, rather than guess we have made the most conservative choice available and chosen to attribute no further revenue from Argentina, but will roll forward field costs at a 'maintenance level' until we see production again. We have also excluded the Argentinian assets from our valuation model at this time.**

As the workover program (pre-disaster) was proving so successful, we do expect production to resume, and when this does, we will again re-appraise the situation and any attributable value for the asset but re-iterate at this point that our valuation ascribes nil value here.

Risks

Oil industry risks

Given Zenith’s oil & gas sector exposure the company is exposed to exploration risk and the effects of changing commodity prices.

Exchange rate risks

Movements in the value of currencies will have an effect on the company’s accounts on translation to sterling.

Political risk

There are political risks involved in companies operating in Azerbaijan, Italy and Argentina.

Execution risk

Our model assumes that Zenith successfully implements its business plans therefore any variation to these could affect the company’s valuation.

Financial Model

With the technical handover of the Azeri assets completed in August, we reiterate and rebase to sterling (30TH Dec 2016) where appropriate our financial estimates for Zenith out to FY 2019. Our models take into account near-current production reality using best current estimates of operational and corporate overheads and capital expenditures, all synchronised to Zenith's current operational scheduling.

P&L and Cash Flow Models

Our P&L and cash flow models are based on Zenith's near-term operational plans. Our estimates diverge from the earlier engineering projections as detailed in the CPR in several respects. For the Azeri businesses unit, we present revenues at the joint operating level, after the government take under the REDPSA. Near term the 'proven + probable developed' engineering case, for example, captures the engineering for near-term re-development plan, but we have updated some inputs:

- **We have maintained the commodity price bench at USD$47 receivable per barrel front month (August 2016) but will look to revise our forecasts thoroughly in due course. For now, we have simply rebased our estimates to reflect Canadian list issues of stock, have made cost adjustments (in line with the 30th Sept H1 figures) and we have adjusted for the London placing. We have not fundamentally revisited the underlying models or input pricings at this time.**
- **We have modified the near term 'total field' decline curve to better match the lower declines Zenith have seen in real production figures but maintain gross reserves volumes.**
- **Individual workover decline curves (on which the future engineering projections are based) follow the same rates of decline but we have increased the initial expected rate up from 40bopd to 45bopd for the Maykop type wells to be reworked on the Zardab field, based on revised company data.**
- **We have reduced the net bopd gain** by 1.75 from individual workovers to better model incremental production changes.

Some of these alterations increase near-term revenues compared to the engineering in the CPR, some reduce them: but that is engineering for you. On the cost side, we have embedded lower best estimates of up-to-date real-world figures in our model, which replace higher 'world-priced' industry standard estimates but encapsulate Zenith's plan to use more cost effective local materials suppliers and technically capable locally sourced contractors. **Taking these new assumptions into account fixed field opex is reduced from USD$3.3 million p.a. to USD$1.9 million, with variable opex reduced from USD$10USD/barrel to USD$8/barrel.**

The revenue returns on these altered costings are not straightforward and are non-linear because of how the cost pool in the production sharing agreement calculations affects the government take under the terms of the REDPSA. We have applied the terms of the REDPSA more strictly than the engineering model in that we have set up loan pools and loan recovery pools to/from SOA within the joint operating agreement, to better model cashflows to Zenith. All costs going forward are indexed, with near current commodity pricing and forex inbuilt. In our models, we have accommodated for the ongoing curtailment of production in Argentina but continued to charge for minimal fixed field costs at this time. We also take into account the effect of real-world production declines and gas price changes in Italy and coming changes in the received electricity price changes in Italy.

Corporate forecasts to FY 2019

Our models suggest that with Zenith now capturing its share of the Azeri revenues, company revenues will now grow substantially over the coming years - this is even with Argentina 'currently out of the picture' in our estimates. FY2017 revenues should be around C$4.3 million, rising sharply as the REDPSA workovers take effect to C$9.4 million in FY2018 and C$13 million in FY2019. Italian gas production and electricity production will tail off somewhat unless there is further investment in-country but field management works do appear to be mitigating production declines beyond prior expectations. We expect Zenith will address Italian investments next year prior to license renewals. The workover program in Azerbaijan and the Italian investments plan will be financed using local cash flows.

Top-level G&A costs going forward are seen marginally lower at C$2.4 million p.a., (inflated at 2%) with ongoing finance costs reducing as debts are paid down, after which they are indexed along with all other costs.

The elephant in the room on the P&L is the fair-value carry from the Azeri business combination. Variances in this particular number may, we suspect, dominate the reported numbers for some time to come, both up and down, depending upon the commodity price movements albeit that the re-valuations will be non-cash. Indeed, an updated CPR report related to the completed placing and dated August 31st 2016 adjusts down the NPV from C$618m to C$583m in the March evaluation, despite reflecting reducing field development costs simply because of the lower oil price on the reporting date. This will reverse, if a new report is dated 30th Dec 2016. Given the upward changes in commodity pricings since August this emphasises what a fluid number this will be.

We remain hesitant to project P&L, but now we have a handle on the UK placing, FY17e (before any pricing model adjustments) currently equates to 377p/share basic or 255p/ share fully diluted (at current exchange rates & including the exceptional profit on the business combination), with FY18 at 0.08p/share and FY19 at 2.01p/share. Increasing market price stability and the modest uptick in commodities pricing since recent OPEC and non-OPEC interventions may add additional weight to these forecasts, but we will seek revise them when appropriate.

Valuation

There are a number of moving parts in valuing Zenith's assets, but the concentration is on the newly acquired Azeri business unit. It eclipses the Italian operations and at the moment. We chose to set aside value for the Argentinian assets until the picture there becomes clearer.

As described in the profit and loss discussions, we have moved on from estimations embedded in the March CPR, bringing in more up to date costings and illustrate the effect of this in the below table. (This, as it turns out may have proved more in-line with Chapman's revised CPR utilised in the London placing, which reflected lower cost estimates but we will look at this again at a future date).The table shows the value differences between our model and the CPR on a comparative basis, listing the output of the original CPR model, of our revised model on the same price basis and, and our new model as a stand-alone. Ostensibly, the differences are non-linear but we feel our lower price benchmark reflects a conservative valuation that we are happy with at this time.

Comparative Valuation March Chapman CPR vs Align (current £)

	Undiscounted £	Undiscounted Align £	NPV10 Chapman £	NPV10 Align £
Near term proven + probable developed (Chapman)	**31,361,473**	n/a	**17,334,003**	n/a
Revised proven + probable (same pricing)	31,521,489	36,997,339	20,375,305	24,322,734
Revised proven + probable (Align)	**26,303,916**	29,434,895	17,694,883	**19,347,520**
	0	0	0	0
Full development (Chapman)	**1,555,093,556**	n/a	**377,699,978**	n/a
Revised full development (same pricing)	2,106,246,809	2,129,396,398	487,806,546	503,318,455
Revised full development (Align pricing)	***1,538,760,646***	*1,566,745,175*	*358,255,862*	***371,723,057***

Sum of the Parts Valuation

Azeri assets

In the short-term, the value proposition is captured by the upcoming well-redevelopment program. This is akin to the proven plus probable development case in the CPR, which we have modified as discussed and generates a PV10 of £19,347,520.

Over the longer term, the full field development works and value are captured by the proved plus possible case. We can appropriately risk this independently of the short-term case by stripping out the proven plus probable value from the aggregate figure. This allows us to risk the possible case (the longer-term development plan) alone as it is netted-out. Doing so and risking the geological chance of the plan's success quite harshly at 50% before seismic works are completed and horizontal wells are tested on site, we then chose to carry 10% of that value, or £17,618,777 into our company sum of the parts, at this time.

This puts a total current value of £36,966,297 on the Azeri Assets or 37.5 pence per share.

By approaching the valuation in this way some measure of the inherent value in the full field attributable to the company is recognised now but it is also understood that the longer-term plans will need to be sanctioned for active development and funding solutions (reserves based lending most likely) for the proposed development works in-place before a fuller 'carry' of their value can be brought into the company valuation.

Yes, we know the 'fair value' is and was brought in on the P&L as part of the business combination, but that is the accounting world and this is our 'equity world'. In short, this is our valuation of the equity and this is what we think is fair to consider at this juncture.

For an investor it means there is a clear pathway to increase the carrying value further as works progress and as plans firm up. It will be a very exiting few years for Zenith. As we said at the start, we believe that the shares could move towards a mid-cap E&P valuation on a long-term investment horizon if the company sticks to the path and drills out the field as proposed.

Italian Assets

For the Italian assets, we have run the cash flow models using the latest near term net cash flow projections and the forward engineering, taking note that the new works on the Torrente Cingo License are moved to 2020.

This puts a value of £4,340,503 on Zenith's Italian assets or 4.40 pence/share which we point out equates to half the current stock price alone.

Summary

As we have chosen to set-aside Zenith's Argentinian assets until future production is clearer, this gives a sum of the parts valuation, assuming full dilution and wary of further capital issues, of 41.9 pence/share. With 2019 EPS forecast at just over 2p, either way we split it a 7p current share price is simply way too low and we expect a short-medium re-rate to 8-10 PE equating to 16-20p per share.

Forecast Tables

Azeri Assets	Undiscounted Cashflow £	NPV 10 £	Gcos weighting	Carried Value £	Commercial Weighting	Carried Value £	Carried value pence per share
Proved	26,303,916	19,347,520	100%	19,347,520	100%	19,347,520	
Full development plan	1,538,760,646	352,375,537	50%	176,187,769	10%	17,618,777	
						36,966,297	37.50
Italian Assets							
PDP		2,228,749	100%	2,228,749	100%	2,228,749	
Probable (rescheduled)		875,666	90%	788,099	90%	709,289	
Probable Undeveloped (rescheduled)		5,609,858	50%	2,804,929	50%	1,402,465	
						4,340,503	4.40
				Sum of the Parts Pence per share			**41.91**

Profit and Loss Forecasts

(Expressed in Canadian Dollars)

Year End 31 March	FY2015a	FY2016a	FY 2017e	FY 2018e	FY 2019e
Azerbaijan (oil)	n/a	n/a	3,402,507	8,473,328	12,271,890
Argentina (oil)	3,707,073	1,283,940	77,636	0	0
Italy (gas)	989,404	466,131	132,814	269,178	198,371
Italy (condensate)	87,961	63,033	65,288	48,966	49,945
Total oil and gas revenue	***4,784,438***	***1,813,104***	***3,678,245***	***8,791,472***	***12,520,206***
Italian Electricity Revenues	n/a	262,054	654,461	582,134	504,711
Gross Revenues	***4,784,438***	***2,075,158***	***4,325,495***	***9,373,607***	***13,024,917***
Royalty Charges	(345,132)	(115,408)	(7,211)	0	0
Net revenues	***4,439,306***	***1,959,750***	***4,325,495***	***9,373,607***	***13,024,917***
Operating Expenses	(1,760,171)	(1,747,134)	(2,603,968)	(4,590,052)	(4,520,441)
Transportation	(52,896)	(56,875)	(7650)	0	0
G&A	(2,695,386)	(3,098,472)	(2,800,000)	(2,448,000)	(2,496,960)
Gain/(Loss) on Sale of Marketable Securities	(135,910)	19,619	(3,720)	0	0
Fair Value Adjustment on Marketable Securities	(161,560)	(27,832)	0	0	0
Impairment of Inventory	0	(228,657)	0	0	0
Transaction Costs	0	(35,536)	0	0	0
Other Expense	0	(32,235)	942,954	0	0
Depletion and Depreciation	(667,915)	(331,553)	(649,906)	(1,406,041)	(1,953,737)
Impairment of Property & Equipment	0	(5,025,000)	0	0	0
Loss on Conversion of Convertible Notes	(82,434)	12,934	0	0	0
Fair Value Adjustment on Derivative Liability	513,941	(221,300)	0	0	0
FOREX	(253,646)	717,359	(90,740)	0	0
Total Expenses	***(5,295,977)***	***(10,054,682)***	***(5,213,030)***	***(8,444,093)***	***(8,971,109)***
Profit/ Loss from Operations	**(856,671)**	**(8,094,932)**	**(887,535)**	**929,514**	**4,053,808**
Gain on Business Combination	0	0	771,189,197	0	0
Accretion of Convertible Notes	(418,863)	0	0	0	0
Accretion of Bonds	0	0	0	0	0
Accretion of Decommissioning Liability	(556,964)	0	0	0	0
Finance Expense	(444,292)	(1,093,572)	(1,124,236)	(800,000)	(765,000)
Income before Tax	(2,276,790)	(9,188,504)	769,464,986	129,514	3,288,808
Tax (provision) reduction	(99,491)	1,514,056	(153,043,767)	0	0
	(2,376,281)	*(7,674,448)*	*616,133,659*	*129,514*	*3,288,808*
Exchange Differences on Translation of Foreign Ops	(1,598,204)	(142,133)	(8,195,174)	0	0
Comprehensive Profit (Loss)	**(3,974,485)**	**(7,816,581)**	**607,938,485**	**129,514**	**3,288,808**
Basic per share (pence)	***(6.78)***	***(14.02)***	***376.98***	***0.08***	***2.01***
Diluted per share (pence)			***255.47***	***0.05***	***1.36***
Shares Outstanding	*21,145,518	*33,015,721	98,564,847	98,564,847	98,564,847
Fully Diluted			145,446,469	145,446,469	145,446,469

* Weighted average figures used for appropriate reporting dates.

Source: Align Research, Zenith Energy

Cash Flow Forecasts

(Expressed in Canadian Dollars)

Year End 31 March	FY2015a	FY2016a	FY 2017e	FY 2018e	FY 2019e
Net Income	(2,376,281)	(7,674,448)	616,737,981	129,514	3,288,808
Shares Issued for Services	0	66,717	301910	0	0
Gain/(Loss) on Sale of Marketable Securities	135,910	(19,619)	(3,720)	0	0
Fair Value Adjustment on marketable Securities	*161,560*	*27,832*	0	0	0
Impairment of Inventory	0	228,657	0	0	0
Other Expense	0	32,235	(942,954)	0	0
Depletion & Depreciation	667,915	331,553	649,249	1,406,041	1,953,737
Impairment of Property & Equipment	0	5,025,000	2,118	0	0
Conversion of Convertible Notes	82,434	(12,934)	0	0	0
Fair Value Adjustment on Derivative Liability	(513,941)	221,300	0	0	0
Finance Expense	1,000,124	719,757	1,124,236	800,000	765,000
Gain on Business Combination	0	0	(771,189,197)	0	0
Deferred Tax Reduction	99,491	(1,514,056)	153,043,767	0	0
	(742,788)	*(2,568,006)*	*(80,275)*	*2,335,555*	*6,007,545*
Foreign Exchange on Translation	61,362	(804,231)	59,916	0	0
Change in Non-Cash Working Capital	47,044	898,470	(176,777)	0	0
	(634,382)	**(2,473,767)**	**(997,136)**	**2,335,555**	**6,007,545**
Financing Activities					
Proceeds from Issuance of Bonds	0	517,731	357,001	0	0
Proceeds from Bank Loans (net of repayment)	0	454,338	650,560	0	0
Repayment of Bank Loans	0	0	(1,185,000)	(806,304)	(348,000)
Repayment of Notes payable	(274,642)	(204,315)	(83,016)	0	0
Proceeds from Issue of Share Capital (net of costs)	2,147,708	1,049,967	4,931,286	0	0
New Loans under the REDPSA	n/a	n/a	(578,057)	(1,419,767)	(1,945,263)
Redemption of Loans Under the REDPSA	n/a	n/a	0	0	3,067,973
Change in Non-Cash Working Capital	30,660	158,784	127,433	169,911	275,473
	1,903,726	**1,976,505**	**4,220,207**	**(2,056,160)**	**1,050,183**
Investing Activities					
Proceeds on Sale of Marketable Securities	55,981	361,926	10,818	0	0
Purchase of Marketable Securities	(202,863)	(136,568)	0	0	0
PP&E Expenditures	(1,170,600)	(414,921)	(426,117)	(1,619,806)	(3,802,042)
Payment of Trade Creditors	*0*	*0*	(500,000)	(500,000)	(1,000,000)
Cash from Receivables	*0*	*0*	500,000	388,969	0
Change in Non-Cash Working Capital	299,716	34,395	2,496	0	0
	(1,017,766)	**(155,168)**	**(412,803)**	**(1,730,837)**	**(4,802,042)**
Change in Cash	251,577	(652,430)	2,810,267	(1,451,442)	2,255,686
FOREX on International Deposits	(26,326)	(146,087)	(2,893)	0	0
Cash Start of Period	***711,248***	***936,499***	***137,982***	***2,945,356***	***1,493,915***
Cash End of Period	***936,499***	***137,982***	***2,945,356***	***1,493,915***	***3,749,600***

Source: Align Research, Zenith Energy

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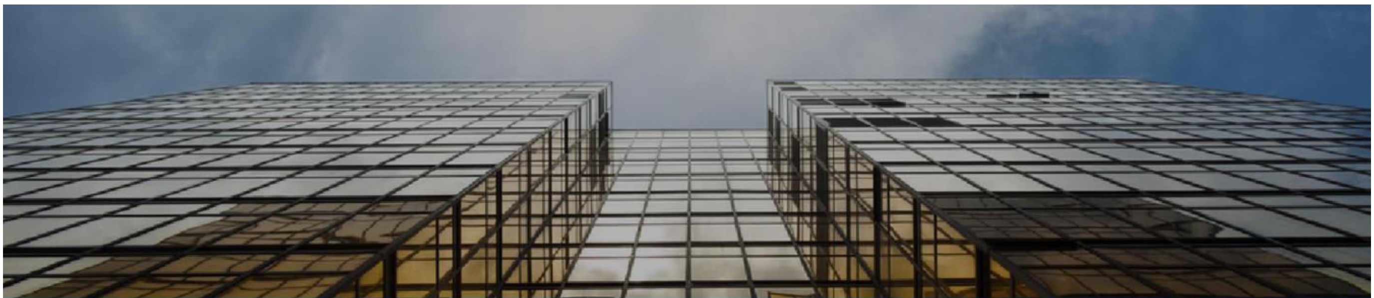

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