2021 FOURTH QUARTER REPORT

FINANCIAL AND OPERATIONAL SUMMARY

($000 CAD, except per share and per boe amounts)	Three months ended Dec 31, 2021	Sep 30, 2021	Dec 31, 2020	Year ended Dec 31, 2021	Dec 31, 2020
FINANCIAL					
Petroleum and natural gas sales	**5,453**	4,717	2,659	**17,830**	8,615
Cash flow from operating activities	**373**	1,982	206	**3,945**	2,406
Funds flow from operations(1)	**216**	1,349	818	**3,499**	2,502
Per share – basic(1)(4)	**0.01**	0.12	0.08	**0.24**	0.23
Per share – diluted(1)(4)	**0.01**	0.12	0.08	**0.24**	0.23
Net income (loss)(2)	**(258)**	10,105	10,730	**8,339**	(18,994)
Per share – basic(2)(4)	**(0.01)**	0.93	0.99	**0.57**	(1.74)
Per share – diluted(2)(3)(4)	**(0.01)**	0.93	0.99	**0.56**	(1.74)
Capital expenditures(1)	**5,840**	2,614	105	**10,391**	7,874
Property dispositions	**-**	-	-	**(1,750)**	(1,746)
Adjusted working capital (net debt)(1)	**20,688**	(3,462)	(3,932)	**20,688**	(3,932)
Common shares outstanding (000)					
End of period – basic(4)	**28,438**	10,892	10,892	**28,438**	10,892
Weighted average for the period – basic(4)	**26,069**	10,892	10,892	**14,718**	10,892
Weighted average for the period – diluted(3)(4)	**27,450**	10,892	10,892	**14,876**	10,892
OPERATING					
Average daily production					
Heavy crude oil (bbls/d)	**502**	496	468	**506**	465
Light crude oil & medium crude oil (bbls/d)	**-**	-	-	**-**	6
NGLs (bbls/d)	**78**	72	48	**65**	51
Natural gas (Mcf/d)	**2,895**	2,861	2,402	**2,666**	2,151
Total (boe/d)(5)	**1,063**	1,045	916	**1,015**	880
($/boe)(5)					
Petroleum and natural gas sales	**55.78**	49.04	31.56	**48.12**	26.74
Royalties	**(7.10)**	(5.53)	(2.61)	**(5.60)**	(2.03)
Operating expenses	**(12.20)**	(14.44)	(12.75)	**(13.43)**	(13.27)
Transportation expenses	**(1.81)**	(1.75)	(1.93)	**(1.99)**	(2.34)
Operating netback(1)	**34.67**	27.32	14.27	**27.10**	9.10
BENCHMARK COMMODITY PRICES					
WTI crude oil (US$/bbl)	**77.19**	70.56	42.66	**67.91**	39.40
WCS (CAD$/bbl)	**78.71**	71.80	43.41	**68.73**	35.59
AECO daily spot (CAD$/GJ)	**4.41**	3.41	2.50	**3.44**	2.11

(1) This is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section of this press release.
(2) Prior period amounts have been restated. Refer to the "Change in Accounting Policies" section included in Management's Discussion & Analysis for the three months and year ended December 31, 2021.
(3) Basic weighted average shares are used to calculate diluted per share amounts in periods in which there is a loss position.
(4) On December 23, 2021, the Company completed a 10 to 1 common share consolidation. All per share and common share values have been presented on a post-consolidation basis.
(5) The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. Refer to "Barrels of Oil Equivalent" section included in the "Advisories" section of this press release.

HIGHLIGHTS

Fourth Quarter and Year-End 2021 Results

- In October 2021, Tenaz completed the recapitalization and amalgamation of Altura Energy Inc. Gross proceeds of $29.5 million were raised in brokered and non-brokered private placements, and a new management team and board of directors were appointed.
- On December 17, 2021, the Company completed the closing of its previously announced rights ("Rights") offering (the "Rights Offering") pursuant to which each shareholder of common shares on November 15, 2021 (the "Record Date") received one (1) Right for each common share held by such shareholder. Each eight (8) Rights entitled the holder to subscribe for one common share upon payment of a subscription price of $0.18 per common share. Common shares representing 74% of eligible Rights were purchased for gross proceeds of $1.8 million.
- On December 23, 2021, Tenaz completed the consolidation of common shares on a 10-for-1 basis resulting in new basic shares outstanding of 28.4 million versus the pre-consolidation total of 284 million.
- Production volumes averaged 1,063 boe/d[1] in the quarter, up 21% year-over-year. For 2021 as a whole, production averaged 1,015 boe/d, slightly above guidance of 1,000 boe/d.
- Funds flow from operations[2] for the full year 2021 was $3.5 million, up 40% from 2020. Higher 2021 funds flow from operations resulted from increases in both commodity prices and production volumes, partially offset by a $2.7 million realized hedging loss and $1.2 million of transaction costs associated with the recapitalization transaction during 2021. As a result of extinguishing our bank debt in Q4 2021, we are no longer required to maintain a rolling hedge position. Previously established hedge positions scroll off during May 2022.
- Net income for full year 2021 was $8.3 million ($0.57 per share), which increased from a net loss of $19.0 million ($1.75 per share) in 2020, primarily driven by an impairment reversal arising from the improved commodity price outlook.
- The Company ended the year with positive adjusted working capital[2] of $20.7 million. The year-end positive balance compares to net debt of $3.5 million as at Q3 2021. The improvement in financial position resulted from net proceeds raised from the private placements and rights offering in the fourth quarter, partially offset by repayment of bank debt and acceleration of two wells from the 2022 capital program into December 2021.
- Tenaz drilled and completed two (1.8 net) wells targeting the Rex formation in Leduc-Woodbend during the fourth quarter, as planned in our updated budget announced on November, 18, 2021. Both wells were equipped and put on production during Q1 2022, and are cleaning up as expected. Capital investment for the fourth quarter was $5.8 million.

2022 Update

- Our 2022 budget has been updated to reflect the acceleration of drilling into December 2021. Capital investment for 2022 has been reduced from $7.8 million to $5.8 million, with annual production guidance unchanged at 1200-1300 boe/d. Based on current commodity prices, capital investment will be significantly less than 2022 funds flow from operations.

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[1] The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. Refer to "Barrels of Oil Equivalent" section included in the "Advisories" section of this press release.

[2] This is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section of this press release.

Year-End 2021 Reserves

- Proved Developed Producing ("PDP") reserves increased 23%, reflecting a reserve replacement ratio of 187%. PDP reserves at year-end totaled 1,724 Mboe, and NPV10 increased 115% to $23 million.
- Total Proved ("1P") reserves increased 19%, reflecting a reserve replacement ratio of 393%. 1P reserves at year-end totaled 6,762 Mboe, and NPV10 increased 86% to $47 million.
- Total Proved + Probable ("2P") reserves increased 7%, reflecting a reserve replacement ratio of 288%. 2P reserves at year end totaled 11,324 Mboe, and NPV10 increased 51% to $87 million.
- PDP Finding, Developing and Acquisition Costs ("FD&A") were $12.40/boe, resulting in a 2.8x recycle ratio based on the Q4 2021 operating netback of $34.67/boe. Recycle ratios at the 1P and 2P levels were 2.3x and 1.7x, respectively.
- Reserve life indices were 4.4 years, 17.3 years and 29.0 years, respectively for PDP, 1P and 2P reserves.

PRESIDENT'S MESSAGE

With the transformation of Altura Energy into Tenaz Energy now complete, we are excited about the prospects of our new company. Tenaz is equipped with a focused and dedicated team of professionals, a product of the prior Altura team plus the founders of Tenaz. Our vision is to build a leading intermediate-size E&P by targeting high-quality assets in global markets to support a balanced growth-and-income capital markets model.

In pursuit of such opportunities, we have outlined a geographic scope for evaluation that includes Europe, MENA and South America. We recognize that this is a substantial remit, but we prefer to have a wide set of assets to choose from as we search for the highest returns for shareholders. We continue to see opportunities in these focus areas despite a highly volatile commodity market. High prices for all commodities have created large cash flows from E&P assets, but increases in asset valuations have not typically matched the improvement in cash flows. In this new environment, we believe that returns on acquisitions can be higher than before the commodity run-up, but we will place an even greater emphasis on creative structuring to meet the needs of potential sellers. We will continue to take a conservative view toward long-term prices, and utilize near-to-medium term hedging to lock in returns.

We recognize the importance of transitioning to a lower carbon economy. Nonetheless, energy consumption is growing as income and wealth increase for the global population, with demand for energy outpacing supply for both hydrocarbons and renewables. We believe there is an important role for oil and gas as transitional energy sources. Accordingly, investment and innovation in these energy sources are required to ensure adequate supplies for an ascending global population. Tenaz intends to contribute to carbon emissions reduction through efficient use of inputs in the production process and innovative sustainability projects utilizing existing oil and gas infrastructure. Environmental, social and economic sustainability is central to our strategy. This starts with our existing Canadian development project, and will be extended to all acquisitions that we make.

The pandemic and the Russian war on Ukraine have left the world with a shortage of all commodities. It is unclear how long this imbalance of supply and demand will persist, with market pricing being the only corrective mechanism available in the short term. We support policy adjustments that are available throughout the free world to responsibly increase both hydrocarbon and renewables production in the medium and longer terms. Finally, and more importantly than any economic ramification, we are inspired by the Ukrainian defense of freedom and their homeland.

Operations update

In addition to pursuing our international acquire-and-exploit strategy, Tenaz inherited a high quality semi-conventional development project in the Leduc-Woodbend area of Alberta, Canada. The project targets the Rex zone within the Mannville formation across a contiguous asset base with Tenaz-owned infrastructure. This oil-weighted play offers significant advantages, including robust drilling economics, a large operated land position, self-sufficient infrastructure with excess capacity, ease of surface access, and low abandonment obligations. We will continue to develop this project to generate moderate growth and free cash flow that can be deployed in support of our overall corporate strategy.

During December 2021, we executed the drilling and completion of the first two wells of our planned four well program for budget year 2022. We accelerated this activity to take advantage of quality, fit-for-purpose drilling and completion services that were available in advance of expected service constraints in Q1-2022. The two (1.8 net) wells drilled and completed in December 2021 were equipped and brought on production in January 2022, and are currently cleaning up as expected.

The remaining two wells of our planned four-well program for 2022 will be drilled after lease access is available post break-up. These wells reach payout rapidly, well within one year at current commodity prices, and we will evaluate if an expansion of our current 2022 drilling activity is warranted to accelerate field development. Under our current plan, production is expected to be within our 2022 guidance of 1,200 to 1,300 boe/d, approximately 25% higher than full year 2021.

Our Leduc-Woodbend project has a significant drilling inventory capable of providing production growth for a number of years. We plan to continue to develop this valuable land base into a business unit of appropriate scale over the coming years with funding from internally generated cash flow. We view this ongoing semi-conventional development project as a small but worthwhile component of our overall free cash flow-oriented strategy.

Finally, we would like to thank the former Altura shareholders and our new investors for their ongoing support of Tenaz and our new strategy.

/s/ Anthony Marino
President and Chief Executive Officer
March 24, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("**MD&A**") of financial condition and results of operations for Tenaz Energy Corp. (formerly Altura Energy Inc.) (the "**Company**" or "**Tenaz**") is dated March 24, 2022 and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended December 31, 2021 and 2020, as well as the Company's annual information form that is found on SEDAR at www.sedar.com. These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and sometimes referred to in this MD&A as Generally Accepted Accounting Principles ("**GAAP**") as issued by the International Accounting Standards Board.

This MD&A includes references to certain financial and performance measures which do not have standardized meanings prescribed by IFRS. In addition, this MD&A includes references to certain non-GAAP financial measures, non-GAAP financial ratios, capital management measures and supplementary financial measures which are not specified, defined, or determined under IFRS and are therefore considered non-GAAP and other financial measures. These non-GAAP and other financial measures are unlikely to be comparable to similar financial measures presented by other issuers. For a full description of these non-GAAP and other financial measures and a reconciliation of these measures to their most directly comparable GAAP measures, please refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in this MD&A.

Readers are cautioned that the MD&A also contains forward-looking statements and should be read in conjunction with Tenaz's disclosure under "Forward-Looking Information" included in this MD&A.

All figures are in Canadian dollar thousands unless otherwise noted.

Change in Accounting Policies

Effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to the discounting of its decommissioning liability. As a result, certain comparative information has been restated in this MD&A. Refer to the "Change in Accounting Policies section" of this MD&A for a description of the changes and the impact on the Company's financial statements. Comparative amounts for periods prior to January 1, 2020 included in this MD&A have not been restated.

Share Consolidation

On December 23, 2021, the Company completed a 10-to-1 common share consolidation. The number of shares, warrants and options outstanding have been adjusted on a retroactive basis. All per share and common share values have been presented on a post-consolidation basis.

RECAPITALIZATION TRANSACTION

On October 7, 2021, shareholders approved a recapitalization transaction (the "**Recapitalization Transaction**") which was completed on October 8, 2021. The Recapitalization Transaction involved the following:

- The Company completed a non-brokered private placement pursuant to which 2,777,800 units were issued at a price of $1.80 per unit for gross proceeds of $5.0 million. Each unit was comprised of one common share ("**Common Share**") and one warrant ("**Warrant**") of the Company, with each Warrant entitling the holder thereof to purchase one Common Share at a price of $1.80 per Common Share for a period of five years from the issuance date, subject to certain terms and conditions. Refer to note 11d in the Company's consolidated financial statements for additional information on the accounting for the Warrants. The Warrants vest and become exercisable as to one-third upon the 20-day volume weighted average price of the Common Shares (the "**Market Price**") equaling or exceeding $2.50 per Common Share, an additional one-third upon the Market Price equaling or exceeding $3.15 per Common Share and a final one-third upon the Market Price equaling or exceeding $3.60 per Common Share. As at December 31, 2021, two-thirds of the Warrants are fully vested.

- Concurrently with the closing of the non-brokered private placement, the appointment of a new management team and reconstitution of the board of directors was completed.
- On September 22, 2021, the Company completed the brokered private placement pursuant to which 13,611,200 Subscription Receipts were issued at a price of $1.80 per Subscription Receipt for gross proceeds of $24.50 million, which was held in escrow. On October 8, 2021, immediately following the completion of the change of management and the non-brokered private placement, the Company issued 13,611,200 Common Shares pursuant to the conversion of the 13,611,200 Subscription Receipts and $24.5 million in gross proceeds was released from escrow.

On October 15, 2021, the Company's name was changed from "Altura Energy Inc." to "Tenaz Energy Corp." through an amalgamation and the symbol for trading on the TSX Venture Exchange was changed to TNZ (formerly ATU).

On December 17, 2021, the Company completed a rights offering pursuant to which 1,017,984 Common Shares were issued at a price of $1.80 per Common Share for gross proceeds of $1.8 million.

Pursuant to the Recapitalization Transaction and the rights offering, the Company incurred $1.8 million of share issue costs and $1.2 million of transaction costs.

Strategy Update

In addition to the continued development of the Company's existing assets, Tenaz intends to target the acquisition of conventional and semi-conventional oil and gas assets in global markets. The Company will focus on building a portfolio of free cash flow assets that have the potential to provide returns to shareholders via a growth-and-income capital markets model.

With the completion of the Recapitalization Transaction, the Company has established itself as a viable public vehicle for the acquisition of oil and gas producing assets. We intend to leverage our team's experience to pursue opportunities across multiple international jurisdictions where there is the potential for less competition, greater opportunity for operational improvements, and higher returns on capital as compared to the North American industry. Finally, the Company recognizes the critical importance of environmental, social and economic sustainability, and will place a correspondingly high priority on performance and leadership in these areas. The Company is committed to the long-term sustainability of the jurisdictions in which it invests and the local communities in which it operates.

DESCRIPTION OF BUSINESS

Tenaz is an energy company focused on the acquisition and sustainable development of oil and gas assets capable of returning free cash flow to shareholders. In addition, Tenaz conducts development of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. Additional information regarding Tenaz is available on SEDAR and on its website at www.tenazenergy.com. Tenaz's common shares are listed for trading on the TSX Venture Exchange under the symbol "TNZ".

2021 GUIDANCE

2021 guidance and a comparison to actuals is outlined below. Previous 2021 guidance was updated in the Company's press release dated November 17, 2021, and the Company's Third Quarter 2021 MD&A. Copies of the press release and MD&A are available under Tenaz's profile on SEDAR at www.sedar.com or on Tenaz's website at www.tenazenergy.com.

	Previous Guidance	2021 Actual
2021 average production volumes (boe/d)	1,000	1,015
Capital expenditures[(1)] ($000)	8,000	10,391
Wells:		
Drilled	3 (2.63 net)	3 (2.63 net)
Completed	2 (1.77 net)	4 (3.52 net)

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

Capital expenditures for 2021 totaled $10.4 million, which is $2.4 million higher than previous guidance. The increase is due to two (1.75 net) additional well completions that were accelerated into 2021 from the 2022 budget. The acceleration of the completions allowed us to secure suitable hydraulic fracturing services, which management expected to be in tight supply during the first quarter of 2022.

2022 GUIDANCE

	November 17, 2021 Guidance	March 24, 2022 Guidance
2022 average production volumes (boe/d)	1,200 to 1,300	1,200 to 1,300
Capital expenditures[(1)]	7,750	5,800
Wells:		
Drilled	2 (1.75 net)	2 (1.75 net)
Completed	4 (3.50 net)	2 (1.75 net)

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

Capital expenditure guidance for 2022 decreased to $5.8 million from $7.8 million as the Company accelerated two (1.75 net) well completions into 2021 that were previously planned for the first quarter of 2022.

SELECTED ANNUAL INFORMATION

($000, except per share amounts)	**2021**	2020	2019
Petroleum and natural gas sales	**17,830**	8,615	25,757
Cash flow from operating activities	**3,945**	2,406	12,994
Net income (loss)[(1)]	**8,339**	(18,994)	2,215
Per share – basic[(1)(3)]	**0.57**	(1.74)	0.20
Per share – diluted[(1)(2)(3)]	**0.56**	(1.74)	0.20
Total assets[(1)]	**75,401**	34,439	51,053
Common shares outstanding (000)			
End of period – basic[(3)]	**28,438**	10,892	10,892
Weighted average for the period – basic[(3)]	**14,718**	10,892	10,892
Weighted average for the period – diluted[(3)]	**14,876**	10,892	10,989

(1) Net loss for the year ended December 31, 2020 and total assets as at December 31, 2020 have been restated. Comparative amounts for the periods presented above have been restated. Refer to the "Change in Accounting Policies" section in the MD&A.
(2) Basic weighted average shares are used to calculate diluted per share amounts in periods in which there is a loss position.
(3) On December 23, 2021, the Company completed a 10 to 1 common share consolidation. All per share and common share values have been presented on a post-consolidation basis.

RESULTS OF OPERATIONS

Operational and Financial Review

	Q4 2021	Q3 2021	Q4 2020	**2021**	2020
Production					
Heavy crude oil (bbls/d)	**502**	496	468	**506**	465
Light & medium crude oil (bbls/d)	**-**	-	-	**-**	6
Natural gas liquids (“NGLs”) (bbls/d)	**78**	72	48	**65**	51
Natural gas (Mcf/d)	**2,895**	2,861	2,402	**2,666**	2,151
Total (boe/d)	**1,063**	1,045	916	**1,015**	880
Net income (loss)(1)	**(258)**	10,105	10,730	**8,339**	(18,994)
Per share - basic(1)(4)	**(0.01)**	0.93	0.99	**0.57**	(1.74)
Per share – diluted(1)(2)(4)	**(0.01)**	0.93	0.99	**0.56**	(1.74)
Cash flow from operating activities	**373**	1,982	674	**3,945**	2,406
Funds flow from operations(3)	**216**	1,349	818	**3,499**	2,502
Per basic share(3)(4)	**0.01**	0.12	0.06	**0.24**	0.23
Per basic diluted share(3)(4)	**0.01**	0.12	0.06	**0.24**	0.23
Adjusted working capital (net debt)(3)	**20,688**	(3,462)	(3,932)	**20,688**	(3,932)
Activity					
Capital expenditures(3) ($000)	**5,840**	2,614	105	**10,391**	7,874
Property dispositions ($000)	**-**	-	-	**(1,750)**	(1,746)
Wells drilled - Gross/(Net)	**2 (1.75)**	1 (0.88)	-	**3 (2.63)**	2 (1.93)
Wells completed - Gross/(Net)	**2 (1.75)**	1 (0.88)	-	**4 (3.52)**	2 (1.93)

(1) Prior year amounts have been restated. Refer to the “Change in Accounting Policies” section in the MD&A.
(2) Basic weighted average shares are used to calculate diluted per share amounts in periods in which there is a loss position.
(3) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(4) On December 23, 2021, the Company completed a 10 to 1 common share consolidation. All per share and common share values have been presented on a post-consolidation basis.

Production

Tenaz's production in Q4 2021 increased 2% to 1,063 boe/d from the prior quarter and 16% from Q4 2020 due to a full quarter of production from one (0.88 net) well brought on production in August 2021. Comparisons of the current quarter to prior periods are also impacted by the Company divesting 2.75% of production in three working interest dispositions on January 29, 2021, April 27, 2021, and June 15, 2021. Refer to the “Capital Expenditures” section of this MD&A for further information on the dispositions.

In 2021, Tenaz's production increased 15% to 1,015 boe/d from 2020 due to two (1.75 net) new wells brought on production in 2021 and lower production in 2020 due to curtailed production volumes in the second quarter of 2020 because of low oil prices.

Net Income (loss)

In Q4 2021, Tenaz recorded a net loss of $0.3 million compared to net income of $10.7 million in Q4 2020. The decreased net income primarily reflects no impairment reversal in Q4 2021, compared to an impairment reversal of $11.1 million in Q4 2020, higher royalties, DD&A expenses, G&A expenses, transaction costs and share-based compensation expenses, partially offset by increased sales revenue from higher commodity prices and production volumes.

The Company's 2021 net income increased to $8.3 million compared to a net loss of $19.0 million in 2020. The increased net income primarily reflects a reversal of impairment of $9.7 million, compared to impairment of $20.3 million in 2020 and increased sales revenue from higher commodity prices and production volumes, partially offset by a loss on financial instruments, higher royalties, operating, DD&A expenses, G&A expenses, and transaction costs.

Funds flow from operations

In Q4 2021, funds flow from operations decreased by $0.6 million to $0.2 million compared to $0.8 million in Q4 2020. The decrease in funds flow from operations is due to the incurred transaction costs of $1.2 million related to the Recapitalization Transaction. Excluding transaction costs, Q4 2021 funds flow from operations was $1.5 million, $0.7 million higher than Q4 2020 due to increased sales revenue from higher commodity prices and production volumes, partially offset by an increased realized loss on financial instruments, and higher royalties, operating and G&A expenses.

Tenaz's 2021 funds flow from operations increased to $3.5 million compared to $2.5 million in 2020. The increase primarily reflects increased sales revenue from higher commodity prices and production volumes, partially offset by an increased realized loss on financial instruments, and higher royalties, operating, G&A expenses and transaction costs.

Benchmark Commodity Prices

	Q4 2021	Q3 2021	Q4 2020	**2021**	2020
Average Benchmark Prices					
WTI crude oil (US$/bbl)(1)	**77.19**	70.56	42.66	**67.91**	39.40
WCS differential (US$/bbl)(2)	**(14.64)**	(13.58)	(9.30)	**(13.04)**	(12.60)
US$/CAD$ exchange rate	**0.794**	0.794	0.767	**0.798**	0.746
WCS (CAD$/bbl)	**78.71**	71.80	43.41	**68.73**	35.59
AECO daily spot (CAD$/GJ)	**4.41**	3.41	2.50	**3.44**	2.11
Average Realized Prices(3)					
Heavy crude oil ($/bbl)	**80.20**	72.81	44.45	**69.23**	36.59
Natural gas ($/Mcf)	**5.04**	3.87	2.87	**3.95**	2.43
Natural gas liquids ($/bbl)	**56.78**	56.23	25.72	**50.87**	21.32
Petroleum and natural gas sales ($/boe)	**55.78**	49.04	31.56	**48.12**	26.74

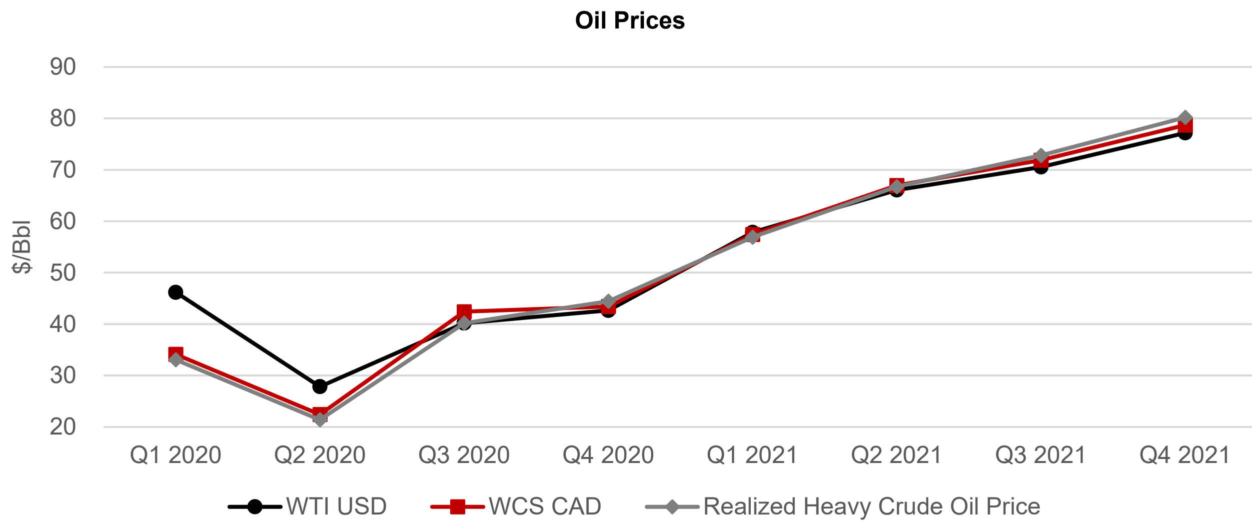
(1) WTI represents posting price of West Texas Intermediate crude oil.
(2) WCS differential represents the difference between the average market price for the benchmark Western Canadian Select ("WCS") heavy crude oil and WTI.
(3) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

Tenaz sells its crude oil on a monthly index basis and natural gas production on a spot basis. The average realized price the Company receives for its crude oil and natural gas production depends on several factors, including the average benchmark prices for crude oil and natural gas, the US to Canadian dollar exchange rate and transportation and product quality differentials.

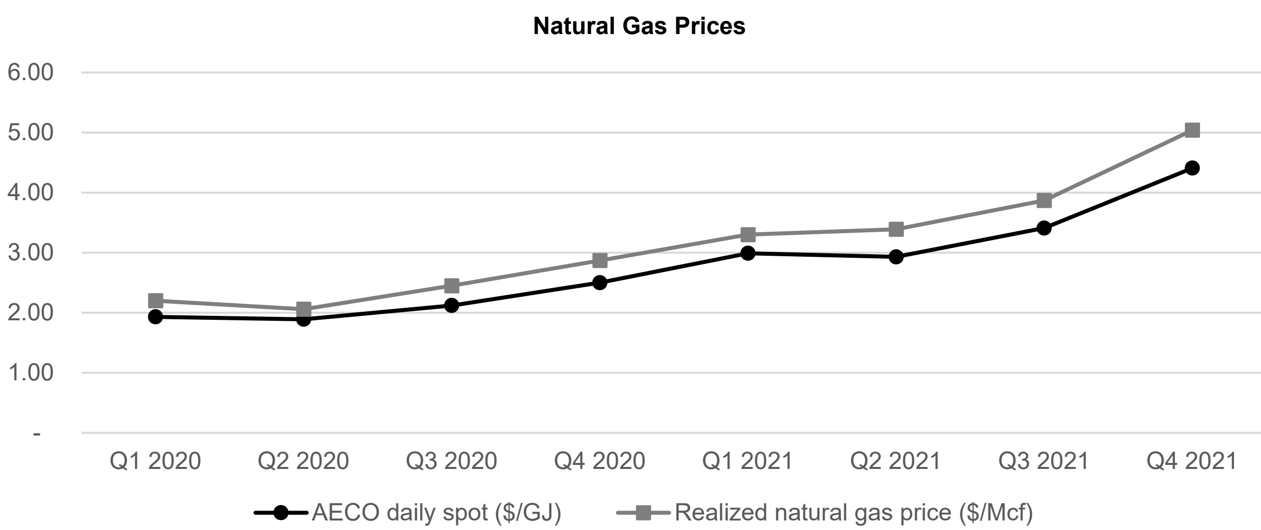
The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal crude oil benchmarks that Tenaz compares its oil price to are the WTI oil price and the WCS oil price. The differential between WTI and WCS oil prices can widen due to several factors, including, but not limited to, downtime in North American refineries, rising domestic and international production, the US to Canadian dollar exchange rate, high inventory levels in North America and lack of pipeline infrastructure or takeaway capacity connecting key consuming oil markets.

In Q4 2021, WTI increased 81% to US$77.19 per barrel compared to $42.66 per barrel in Q4 2020 and the differential between WTI and WCS widened to US$14.64 per barrel in Q4 2021 from US$9.30 per barrel in Q4 2020. The increase in WTI partially offset by the wider WCS differential and stronger Canadian dollar resulted in WCS increasing 81% from Q4 2020 to $78.71 per barrel in Q4 2021. Tenaz benefited from delivering oil to light oil terminals for blending in Q4 2021, realizing a heavy crude oil price of $80.20 per barrel, a 2% premium over WCS, compared to the realized heavy crude oil price in Q4 2020 having a 1% premium over WCS.

In 2021, WTI increased 72% to US$67.91 per barrel compared to 2020 and the differential between WTI and WCS widened 4% to US$13.04 per barrel, resulting in WCS increasing 93% to $68.73 per barrel. Tenaz's realized heavy oil price increased 89% in 2021 to $69.23 per barrel from 2020.



In Q4 2021, Tenaz's realized natural gas price increased by 76% to $5.04 per Mcf from Q4 2020 while the AECO daily spot price increased 76% to $4.41 per GJ from Q4 2020. In 2021, the Company's realized natural gas price increased by 63% to $3.95 per Mcf from Q4 2020 while the AECO daily spot price increased 63% to $3.44 per GJ over the same period.



Financial Review

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Sales					
Heavy crude oil	**3,706**	3,325	1,913	**12,777**	6,227
Light crude oil & medium crude oil	**-**	-	-	**-**	78
Natural gas liquids	**406**	374	113	**1,209**	397
Natural gas	**1,341**	1,018	633	**3,844**	1,913
Petroleum and natural gas sales	**5,453**	4,717	2,659	**17,830**	8,615
Royalties	**(694)**	(532)	(220)	**(2,076)**	(654)
Operating	**(1,191)**	(1,391)	(1,072)	**(4,978)**	(4,273)
Transportation	**(178)**	(168)	(163)	**(737)**	(755)
Realized gain (loss) on financial instruments	**(918)**	(798)	125	**(2,731)**	1,454
General and administrative expenses	**(1,113)**	(285)	(394)	**(2,273)**	(1,590)
Transaction costs	**(1,117)**	(128)	-	**(1,245)**	-
Interest and financing expenses	**(26)**	(66)	(117)	**(291)**	(295)
Funds flow from operations(1)	**216**	1,349	818	**3,499**	2,502
Changes in non-cash operating working capital	**157**	633	(612)	**446**	(96)
Cash flow from operating activities	**373**	1,982	206	**3,945**	2,406

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

Petroleum and Natural Gas Sales

Petroleum and natural gas sales in Q4 2021 increased 105% to $5.4 million compared to $2.7 million in Q4 2020. The increase of $2.7 million was primarily attributable to increased realized commodity prices.

In 2021, petroleum and natural gas sales increased 107% to $17.8 million compared to $8.6 million in 2020. The increase of $9.2 million consists of $8.2 million attributed to increased realized commodity prices and $1.0 million attributed to increased production volumes.

Royalties

In Q4 2021, royalty expense increased to 12.7% of sales ($7.10 per boe) compared to 8.3% of sales ($2.61 per boe) in Q4 2020. In 2021, royalty expense increased to 11.6% of sales ($5.60 per boe) compared to 7.6% of sales ($2.03 per boe) in 2020. The increase in both periods is reflective of higher average royalty rates on Crown lands due to increased commodity prices for all products as Crown royalty rates vary depending on the product reference price. Additionally, in 2021 the Company had fewer wells receiving the Crown's flat royalty rate of 5% on early production under the Drilling and Completion Cost Allowance program.

Operating

Operating expenses increased to $1.2 million in Q4 2021 from $1.1 million in Q4 2020. In 2021, operating expenses increased to $5.0 million compared to $4.3 million in 2020. These increases are mainly due to increased production activity and a higher number of producing wells in the three months and year ended December 31, 2021 compared to the same periods of 2020.

On a per boe basis, operating expenses decreased to $12.20 per boe in Q4 2021 compared to $12.75 per boe in Q4 2020. The decrease in the quarter is due to lower repairs and maintenance costs, partially offset by higher electricity costs. In 2021, operating costs were $13.43 per boe, consistent with $13.27 per boe in 2020.

Transportation

Transportation expenses increased marginally in Q4 2021 from Q4 2020 due to increased production volumes, partially offset by lower natural gas transportation rates. In 2021, transportation expenses were consistent period-over-period, with lower natural gas transportation rates offset by increased production volumes. The decreased natural gas transportation rates in Q4 2021 and 2021 compared to the same periods in 2020 are related to a new gas marketing contract signed in the fourth quarter of 2020 with lower transportation rates.

On a per boe basis, transportation expenses decreased to $1.81 per boe and $1.99 per boe in Q4 2021 and 2021, respectively, compared to $1.93 per boe and $2.34 per boe in the same periods of 2020. The decrease in both periods is due to lower natural gas transportation rates as described above.

Operating Netback Summary

($/boe)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Petroleum and natural gas sales	**55.78**	49.04	31.56	**48.12**	26.74
Royalties	**(7.10)**	(5.53)	(2.61)	**(5.60)**	(2.03)
Operating	**(12.20)**	(14.44)	(12.75)	**(13.43)**	(13.27)
Transportation	**(1.81)**	(1.75)	(1.93)	**(1.99)**	(2.34)
Operating netback[(1)]	**34.67**	27.32	14.27	**27.10**	9.10

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

In Q4 2021, operating netback increased 143% to $34.67 per boe compared to $14.27 per boe in Q4 2020. In 2021, operating netback increased 198% to $27.10 per boe from $9.10 per boe in the same period of 2020. The increase in both periods is due to the increase in commodity prices, partially offset by higher royalty rates.

Realized gain (loss) on financial instruments

The Company has a risk management program in place with the objectives of reducing the volatility of crude oil and natural gas sales, increasing the certainty of funds flow from operations, protecting development economics and complying with its banking covenant. Tenaz's lender has waived the hedging covenant in its credit facility while the Company's credit facility is undrawn. Following the Reorganization Transaction in October 2021, the Company paid off its bank indebtedness.

The Company's realized gain (loss) on financial instruments by product type is detailed in the following table.

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Crude oil contracts	**(746)**	(674)	109	**(2,380)**	1,431
Natural gas contracts	**(172)**	(124)	16	**(351)**	23
Realized gain (loss) on financial instruments	**(918)**	(798)	125	**(2,731)**	1,454

Tenaz has recognized realized losses on financial instruments in Q4 2021 and 2021 due to the increase in commodity prices compared to the prices at the time the contracts were entered into.

General and Administrative ("G&A") Expenses

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Gross G&A	**1,305**	435	504	**2,877**	2,114
Capitalized G&A and overhead recoveries	**(192)**	(150)	(110)	**(604)**	(524)
G&A expenses	**1,113**	285	394	**2,273**	1,590

G&A expenses increased to $1.1 million in Q4 2021, compared to $0.4 million in Q4 2020. In 2021, G&A expenses increased to $2.3 million from $1.6 million in 2020. The increase in both periods is due to additional staff after the Recapitalization Transaction associated with the Company's new strategy of evaluating and acquiring oil and gas assets in overseas markets, increased insurance and professional services, and decreased funds received from Canadian emergency subsidy programs.

Transaction Costs

Transaction costs of $1.1 million in Q4 2021 and $1.2 million in 2021 were incurred to complete the Recapitalization Transaction and include legal costs, advisory fees, insurance, and severance costs of former management whom did not continue with Tenaz. No transaction costs were incurred in 2020.

Interest and Financing Expenses

In Q4 2021, interest and financing expenses decreased in Q4 2021 versus Q4 2020 due to Tenaz's bank debt being repaid in October 2021. The expense in Q4 2021 relates to standby fees and amortized credit facility renewal fees. In 2021, interest and financing expenses were $0.3 million, consistent with $0.3 million in 2020.

Net Income (Loss) and Funds Flow from Operations

The following table reconciles funds flow from operations to net income (loss):

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Funds flow from operations[1]	**216**	1,349	818	**3,499**	2,502
Other income	**-**	-	192	**-**	192
Unrealized gain (loss) on financial instruments	**1,195**	35	(439)	**(231)**	63
Share-based compensation expense	**(317)**	(63)	(45)	**(557)**	(286)
Depletion, depreciation and amortization	**(1,300)**	(1,187)	(878)	**(4,660)**	(3,712)
(Impairment)/reversal	**-**	10,021	11,131	**9,683**	(20,270)
Accretion of decommissioning liability	**(52)**	(50)	(49)	**(199)**	(164)
Gain on property dispositions	**-**	-	-	**804**	1,122
Deferred tax recovery	**-**	-	-	**-**	1,559
Net income (loss)	**(258)**	10,105	10,730	**8,339**	(18,994)

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

Unrealized gain (loss) on financial instruments

At December 31, 2021, Tenaz held the following crude oil and natural gas contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at December 31, 2021 ($000)
Western Canadian Select ("WCS") Swap Contracts						
Jan 1/22—Jan 31/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD $51.00	(136)
Feb 1/22—Feb 28/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD $59.70	(99)
Mar 1/22—Mar 31/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD $57.50	(122)
Apr 1/22—Apr 30/22	Crude Oil	Fixed Swap	175 bbls/d	WCS	CAD $65.75	(57)
May 1/22—May 31/22	Crude Oil	Fixed Swap	175 bbls/d	WCS	CAD $65.50	(58)
WCS Differential Swap Contracts						
Jan 1/22—Mar 31/22	Crude Oil	Fixed Swap	150 bbls/d	WCS-WTI Differential	CAD ($17.95)	9
Apr 1/22—Apr 30/22	Crude Oil	Fixed Swap	175 bbls/d	WCS-WTI Differential	CAD ($17.00)	(3)
May 1/22—May 31/22	Crude Oil	Fixed Swap	175 bbls/d	WCS-WTI Differential	CAD ($16.70)	(2)
WTI Put Options						
Jan 1/22—Mar 31/22	Crude Oil	Put Option(1)	150 bbls/d	WTI	CAD $62.00	(17)
Apr 1/22—Apr 30/22	Crude Oil	Put Option(2)	175 bbls/d	WTI	CAD $62.00	(11)
May 1/22—May 31/22	Crude Oil	Put Option(3)	175 bbls/d	WTI	CAD $62.00	(8)
Natural Gas Swap Contracts						
Jan 1/22—Jan 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $2.720	(43)
Feb 1/22—Feb 28/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $3.058	(22)
Mar 1/22—Mar 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $2.790	(16)
Apr 1/22—Apr 30/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $2.680	(10)
May 1/22—May 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $2.730	(5)
						(600)

(1) Includes a $19,000 liability to the counterparty on this contract for the deferred premium of $1.40 per barrel.
(2) Includes a $14,000 liability to the counterparty on this contract for the deferred premium of $2.65 per barrel.
(3) Includes a $14,000 liability to the counterparty on this contract for the deferred premium of $2.50 per barrel.

At December 31, 2021, the crude oil and natural gas contracts were fair valued with a liability of $0.6 million (December 31, 2020 - $0.4 million) recorded on the balance sheet.

Share-based compensation

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Share-based compensation, gross	**334**	83	52	**619**	355
Capitalized share-based compensation	**(17)**	(20)	(7)	**(62)**	(69)
Share-based compensation expense	**317**	63	45	**557**	286

Tenaz's share-based compensation is related to the granting of stock options. The Company estimates the fair value of the incentive award based on a Black Scholes model for the determination of non-cash related share-based compensation and the expense is recorded over the expected life. Share-based compensation expense increased to $0.3 million, and $0.6 million in Q4 2021, and 2021, respectively, compared to $0.1 million and $0.3 million in the same periods of 2020. The increase in both periods is due to the accelerated vesting and expiry of certain stock options held by the former management pursuant to the Recapitalization Transaction and a new stock option grant in November 2021 to the new management team, directors, and staff.

Depletion, Depreciation and Amortization ("DD&A")

For the three months and year ended December 31, 2021, DD&A expenses were higher than the same periods of 2020 due to higher production volumes and higher DD&A rates.

On a per unit basis, DD&A increased to $13.30 per boe in Q4 2021, compared to $10.42 per boe in the same period of 2020. In 2021, DD&A increased to $12.58 per boe compared to $11.52 per boe in 2020. The increased per unit depletion in both periods is due to the impairment reversals recorded in the fourth quarter of 2020 and third quarter of 2021, which increased the net book value subject to depletion relative to the same periods in 2020.

Impairment

Impairment is recognized when the carrying value of an asset or group of assets exceeds its estimated recoverable amount, defined as the higher of its value in use or fair value less cost to sell. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment.

Developed and Producing ("**D&P**") Assets

December 31, 2021

At December 31, 2021, there were indicators of impairment reversal identified in Tenaz's Leduc-Woodbend CGU as a result of, amongst other factors considered by management, improved forecasted commodity prices for heavy crude oil since December 31, 2020 and the Recapitalization Transaction. Tenaz has only one CGU. An impairment test was performed on D&P assets and no additional impairment reversal was recorded as the estimated recoverable amount approximated the carrying value.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2021 reserve report prepared by its independent third-party reserve evaluators. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on management's estimates as at December 31, 2021 which were established principally on relevant land sales. The discount rates used in the valuation ranged from 12% to 30%, with an overall weighted average discount rate of approximately 20%.

September 30, 2021

At September 30, 2021, there were indicators of impairment reversal identified in Tenaz's Leduc-Woodbend CGU as a result of, amongst other factors considered by management, improved forecasted commodity prices for heavy crude oil since December 31, 2020. An impairment test was performed on D&P assets and the Company recognized an impairment reversal of $10.0 million related to its Leduc-Woodbend CGU due to the estimated recoverable amount, using value in use, of $43.3 million exceeding the carrying value.

December 31, 2020

At December 31, 2020, there were indicators of impairment reversal identified in Tenaz's Leduc-Woodbend CGU as a result of, amongst other factors considered by management, improved forecasted commodity prices for heavy crude oil since the last impairment test performed on March 31, 2020. Tenaz has only one CGU. An impairment test was performed on D&P assets and the Company recognized an impairment reversal of $11.1 million related to its Leduc-Woodbend CGU due to the estimated recoverable amount of $32.9 million exceeding the carrying value.

The initial impairment expense of $26.7 million on D&P and ROU assets recognized at March 31, 2020, net of the impairment recovery of $11.1 million at December 31, 2020 on D&P assets, resulted in a net impairment expense of $15.6 million recognized for the year ended December 31, 2020.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2020 reserve report prepared by its independent third-party evaluators. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on an independent land evaluation at December 31, 2020. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 20 percent.

March 31, 2020

At March 31, 2020, the Company determined there to be indicators of impairment in its Leduc-Woodbend CGU due to the potential long-term impact of the COVID-19 pandemic which caused a significant decline in forecasted oil benchmark prices and due to a decline in Tenaz's market capitalization in the first quarter of 2020. In the three months ended March 31, 2020, the Company recognized an impairment charge of $26.7 million related to its Leduc-Woodbend CGU due to the carrying value exceeding the estimated recoverable amount. Included in the impairment charge is $0.2 million related to impairment of the Company's ROU assets.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2019 reserve report prepared by its independent third-party reserve evaluators, updated using forecasted oil and gas commodity prices at April 1, 2020, revised forecasted operating cost assumptions and timing of forecasted future development costs and removed production from January 1, 2020 to March 31, 2020, as updated by the Company's internal reserve evaluator. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on management's estimates as at March 31, 2020 which were established principally on relevant land sales. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 17 percent.

Exploration and Evaluation ("**E&E**") Assets

2021

For the year ended December 31, 2021, the Company determined that indicators of impairment existed with respect to its E&E assets, which are all in the Entice area, and Tenaz recognized an impairment charge of $0.3 million on E&E assets. The estimated recoverable amount for the Entice E&E assets was nil based on no oil and gas reserves in the Company's December 31, 2021 reserve report prepared by its independent third-party reserve evaluators.

2020

For the year ended December 31, 2020, the Company determined that indicators of impairment existed with respect to its E&E assets which are all in the Entice area and Tenaz recognized an impairment charge of $4.8 million E&E assets.

For impairment testing, the estimated recoverable amount of E&E assets is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Entice E&E assets of $0.3 million was based on the probable oil and gas reserves and related cash flow from Tenaz's December 31, 2020 reserve report prepared by its independent third-party reserve evaluators. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Entice area, net of decommissioning obligations and included recoverable value for certain undeveloped land, based on management's estimates as at December 31, 2020, which were established principally on relevant land sales. The discount rate used in the valuation was 55 percent.

Deferred Taxes

The Company did not recognize a deferred tax expense or recovery in the three months and year ended December 31, 2021, compared to deferred tax recovery of nil and $1.6 million in the same periods of 2020. The deferred tax recovery in 2020 was due to the pre-tax loss recorded in the year ended December 31, 2020, which reduced the Company's deferred tax liability to nil. Tenaz has not recognized a deferred tax asset at December 31, 2021 as Management did not find it probable that the benefit will be realized.

Estimated tax pools at December 31, 2021 are as follows:

($000)	
Canadian development expenses	12,832
Canadian exploration expenses	3,088
Canadian oil and gas property expenses	-
Non-capital losses	24,463
Undepreciated capital cost	8,170
Share issue costs	1,447
	50,000

Tenaz has non-capital losses of $24.5 million at December 31, 2021 that expire between 2025 and 2041.

Capital Expenditures

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Geological and geophysical	**1**	-	3	**5**	6
Land	**232**	80	52	**452**	717
Drilling and completions	**4,980**	2,064	(9)	**7,961**	6,298
Workovers and recompletions	**225**	147	6	**875**	111
Equipping and tie-in	**192**	264	(9)	**629**	327
Facilities and pipelines	**118**	-	(4)	**193**	30
Other	**92**	59	66	**276**	385
Capital expenditures(1)	**5,840**	2,614	105	**10,391**	7,874
Property dispositions	**-**	-	-	**(1,750)**	(1,746)
Capital expenditures, net of dispositions(1)	**5,840**	2,614	105	**8,641**	6,128

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

Capital expenditures, net of dispositions was allocated as follows:

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Exploration and evaluation	**-**	-	18	**80**	4,008
Property and equipment	**5,840**	2,614	87	**8,561**	2,120
Capital expenditures, net of dispositions(1)	**5,840**	2,614	105	**8,641**	6,128

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

In Q4 2021, Tenaz invested $5.8 million in capital expenditures which included drilling and completing two (1.75 net) horizontal wells at Leduc-Woodbend. The wells were brought on production in January 2022. In 2021, Tenaz invested $10.4 million which included drilling three (2.63 net) wells and completing four (3.52 net) wells at Leduc-Woodbend. Workovers and recompletions in 2021 relate to 12 rod upgrades and one recompletion at Leduc-Woodbend.

In 2020, Tenaz drilled and completed two (1.93 net) wells which included one (1.0 net) exploratory well in the Entice area of Alberta, one (0.93 net) well completion at Leduc-Woodbend and one (0.93 net) well drilled at Leduc-Woodbend, which was subsequently completed in January 2021.

Property Dispositions

On June 15, 2021, Tenaz closed the final working interest disposition of a definitive agreement that was signed on December 31, 2019 and amended on June 26, 2020 and January 22, 2021 with an unrelated third party. Tenaz divested of a 2.75% working interest in the Company's production, wells, lands and facilities for cash of $1.8 million in 2021 in three transactions, and a 2.75% working interest for cash of $1.7 million in 2020 in two transactions.

Decommissioning Liability

At December 31, 2021, Tenaz's decommissioning liability was $2.6 million (December 31, 2020 - $2.1 million) for the future abandonment and reclamation of Tenaz's properties. The estimated decommissioning liability includes cost assumptions to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors used to calculate the undiscounted total future liability. The future liability has been inflated at 1.7% (December 31, 2020 – 1.5%) and discounted at a credit-adjusted risk-free rate of 8.4% (December 31, 2020 – 9.2%).

Abandonment cost estimates are derived from both industry and government sources and operational knowledge of the properties.

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. For the three months and year ended December 31, 2021, accretion expense was consistent with the same periods in 2020.

The Company's Liability Management Rating ("**LMR**") with the Alberta Energy Regulator ("**AER**") was 6.23 at March 24, 2022. The LMR is the ratio of the Company's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Company to pay a deposit to the AER. Additionally, Tenaz's revolving operating demand loan includes a covenant requiring the Company to maintain a Licensee Liability Rating ("**LLR**") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0. Tenaz's LLR with the AER was 6.23 at March 24, 2022, consistent with its LMR.

CAPITAL RESOURCES AND LIQUIDITY

Adjusted working capital (net debt) as at December 31, 2021 and December 31, 2020 is summarized as follows:

($000)	**December 31, 2021**	December 31, 2020
Current assets	**27,499**	1,307
Current liabilities	**(7,411)**	(5,608)
Working capital surplus (deficit)	**20,088**	(4,301)
Exclude fair value of financial instruments	**600**	369
Adjusted working capital (net debt)(1)	**20,688**	(3,932)

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

The Company's policy is to maintain a strong capital base to enhance investor, creditor and market confidence and to sustain the future development of the business. Tenaz's adjusted working capital of $20.69 million as at December 31, 2021 increased from net debt of $3.93 million at December 31, 2020 due to the Recapitalization Transaction that raised aggregate gross proceeds of $29.50 million and $1.83 million through the closing of its non-brokered and brokered private placements on October 8, 2021 and from the closing of the rights offering on December 17, 2021, respectively.

Credit Facilities

At December 31, 2021, the Company had a revolving operating demand loan (the "**Operating Loan**") with a Canadian bank (the "**Lender**") with a maximum borrowing limit of $4.0 million. On October 18, 2021, the Company repaid and canceled its $3.0 million term loan with its Lender which was guaranteed through the Business Credit Availability Program from the Export Development Bank of Canada (the "**Term Loan**").

Tenaz's bank debt at December 31, 2021 and December 31, 2020 is summarized as follows:

($000)	**December 31, 2021**	December 31, 2020
Operating Loan	**-**	985
Term Loan	**-**	3,000
Bank debt	**-**	3,985

The Operating Loan is revolving, payable on demand and contains customary material adverse change clauses. As the borrowing base of the Operating Loan is based on the Lenders' interpretation of Tenaz's estimated proved and probable oil and natural gas reserves and forecasted commodity prices, there can be no assurance as to the amount of available limit that will be determined at each scheduled review.

The interest rate on the Operating Loan (and the Term Loan before it was canceled) is the Lender's prime rate plus 3.5%.

Tenaz is subject to certain reporting and financial covenants including:

- the Company is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facilities and the fair value of any commodity contracts are excluded and the unused portion of the Operating Loan is added to current assets;
- the Company will, at all times, maintain hedging agreements covering no less than 350 bbls/d of oil (Western Canadian Select) and no less than 1,000 GJ/d of natural gas (AECO) for no less than the succeeding nine-month period, on a rolling basis; and
- the Company will maintain a LLR in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at December 31, 2021, the working capital ratio as defined was 4.60:1 (December 31, 2020 – 5.00:1) and the Company was compliant with the LLR covenant (6.23 at March 24, 2022). In December 2021, Tenaz's Lender waived the hedging covenant for the quarter ended December 31, 2021, relating to maintaining hedge agreements for the succeeding nine-month period.

As at December 31, 2021, bank debt was nil (December 31, 2020 - $4.0 million) and the Company had outstanding letters of credit for $0.15 million (December 31, 2020 - $0.05 million).

The next review date for the Operating Loan has been scheduled for May 31, 2022 but may be set at an earlier or later date at the sole discretion of the Lender.

Shareholders' Equity

At December 31, 2021 there were 28,438,074 common shares, 2,030,500 stock options and 2,778,000 warrants outstanding. A summary of the Company's change in common shares from December 31, 2020 to December 31, 2021 is presented below:

	Number of common shares
Balance, December 31, 2020	10,892,097
Issuance of common shares on recapitalization[(1)]	13,611,200
Issuance of units on recapitalization[(1)]	2,777,800
Issuance of common shares on rights offering[(1)]	1,017,984
Exercise of stock options	139,000
Fractional rounding on share consolidation	(7)
Balance, December 31, 2021	**28,438,074**

(1) Pursuant to the Recapitalization Transaction discussed in the "Recapitalization Transaction" section of this MD&A.

On December 23, 2021, the Company completed a 10 to 1 common share consolidation. The number of shares, warrants and options outstanding have been adjusted on a retroactive basis.

At March 24, 2022 the number of common shares has increased to 28,458,074 due to stock option exercises. At March 24, 2022, the number of stock options outstanding totaled 2,010,500 and the number of warrants outstanding totaled 2,777,800.

Capital Resources

The Company's 2022 capital expenditure budget of $5.8 million includes drilling and completing two (1.75 net) Rex wells at Leduc-Woodbend. Tenaz has adequate liquidity to fund the budget through a combination of cash flow from operating activities, and cash on hand.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Tenaz has contractual obligations in the normal course of operations including operating agreements, transportation commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact Tenaz's cash flows in an ongoing manner.

SUMMARY OF QUARTERLY INFORMATION

	2021				2020			
Quarters Ended	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
($000, except per share)								
Petroleum and natural gas sales	**5,453**	4,717	4,220	3,440	2,659	2,526	647	2,783
Cash flow from operating activities	**373**	1,982	763	827	206	505	512	1,183
Net income (loss)	**(258)**	10,105	(532)	(976)	10,730	(420)	(1,287)	(28,017)
Per share – basic	**(0.01)**	0.93	(0.05)	(0.09)	0.99	(0.04)	(0.12)	(2.57)
Per share – diluted(1)	**(0.01)**	0.93	(0.05)	(0.09)	0.99	(0.04)	(0.12)	(2.57)
Shareholders' equity(2)	**75,401**	35,950	25,264	25,625	26,570	15,788	16,134	17,321

(1) Basic weighted average shares are used to calculate diluted per share amounts when the Company is in a loss position.
(2) Prior period amounts have been restated. Refer to the "Change in Accounting Policies" section in the MD&A.

OFF BALANCE SHEET ARRANGEMENTS

Tenaz does not have any off-balance sheet arrangements that would result in a material change to its financial position, performance or funds flow from operations during the reporting periods.

RELATED PARTY TRANSACTIONS

The Company has not entered into any related party transactions.

CRITICAL ACCOUNTING ESTIMATES

The Company's financial and operating results incorporate certain estimates including:

- estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and expenses have not yet been received;
- estimated capital expenditures on projects that are in progress;
- estimated DD&A that are based on estimates of proved and probable oil and gas reserves that the Company expects to recover in the future, estimated future salvage values and forecasted future development costs;
- estimated value of decommissioning liabilities that are dependent upon estimates of future costs, timing of expenditures and the credit-adjusted risk-free rate;
- estimated income and other tax liabilities requiring interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time;
- estimated share-based compensation expense using the Black-Scholes option pricing model;
- estimated value of warrants using the Black-Scholes option pricing model; and
- estimated recoverable amounts are based on estimates of proved and probable oil and gas reserves and the related cash flows and estimated discount rates. Estimated proved and probable oil and gas reserves and the related cash flows are based on significant assumptions which include forecasted oil and gas commodity prices, forecasted production, forecasted royalty costs, forecasted operating costs and forecasted future development costs. Certain undeveloped land is also included in the estimated recoverable amount and significant judgement is used in estimating the recoverable amount including recent sales of similar properties in the same general area, recent exploration and discovery activity in the general area, and the remaining term of the undeveloped land.

The Company has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

RISK FACTORS & RISK MANAGEMENT

Tenaz monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Tenaz maintains a level of liability, and property insurance, which is believed to be adequate for the Company's size and activities but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

Natural disasters, wars, terrorist attacks, riots or civil unrest, could materially and negatively impact the Company's business, its revenues and ultimately its profitability. Such events or occurrences may have a materially negative affect on one or more factors upon which the Company's business relies, including without limitation the demand for, and therefore the price of, the natural resource products produced by the Company, supply chains to operate its business, and the availability of capital required by the Company to fund its operations.

Beginning in November 2021, Russia began to amass troops along the Ukrainian border, heightening military tensions in Eastern Europe. In February 2022, Russia launched a large scale invasion of Ukraine. Ongoing military conflict between Russia and Ukraine have the potential to threaten the supply of oil and gas from the region. The long-term impacts of the conflict between these nations remains uncertain.

In addition, pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide, including COVID-19, or any other similar illnesses could have an adverse impact on the Company's results, business, financial condition or liquidity. On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic has negatively impacted the Canadian, U.S., and global economies; disrupted Canadian, U.S., and global supply chains; disrupted financial markets; contributed to a decrease in interest rates; resulted in ratings downgrades, credit deterioration and defaults in many industries; forced the closure of many businesses, led to loss of revenues, increased unemployment and bankruptcies; and necessitated the imposition of quarantines, physical distancing, business closures, travel restrictions, and sheltering-in-place requirements in Canada, the U.S., and other countries. If the pandemic is prolonged, including through subsequent waves, or if additional variants of COVID-19 emerge which are more transmissible or cause more severe disease, or if other diseases emerge with similar effects, the adverse impact on the economy could worsen. Moreover, it remains uncertain how the macroeconomic environment, and societal and business norms will be impacted following this COVID-19 pandemic. Unexpected developments in financial markets, regulatory environments, or consumer behaviour may also have adverse impacts on the Company's results, business, financial condition or liquidity, for a substantial period of time.

The Company's business, financial condition, results of operations, cash flows, reputation, access to capital, cost of borrowing, access to liquidity, and/or business plans may, in particular, and without limitation, be adversely impacted as a result of the pandemic and/or decline in commodity prices as a result of: the shut-down of facilities or the delay or suspension of work on major capital projects due to workforce disruption or labour shortages caused by workers becoming infected with COVID-19, or government or health authority mandated restrictions on travel by workers or closure of facilities or worksites; suppliers and third-party vendors experiencing similar workforce disruption or being ordered to cease operations; reduced cash flows resulting in less funds flow from operations being available to fund capital expenditure budgets; reduced commodity prices resulting in a reduction in the volumes and value of reserves; crude oil storage constraints resulting in the curtailment or shutting in of production; counterparties being unable to fulfill their contractual obligations on a timely basis or at all; the inability to deliver products to customers or otherwise get products to market caused by border restrictions, road or port closures or pipeline shut-ins, including as a result of pipeline companies suffering workforce disruptions or otherwise being unable to continue to operate; and the ability to obtain additional capital including, but not limited to, debt and equity financing being adversely impacted as a result of unpredictable financial markets, commodity prices and/or a change in market fundamentals. The COVID-19 pandemic has also created additional operational risks for the Company, including the need to provide enhanced safety measures for its employees and contractors; comply with rapidly changing regulatory guidance; address the risk of, attempted fraudulent activity and cybersecurity threat behaviour; and protect the integrity and functionality of the Company's systems, networks, and data as a larger number of employees work remotely. The Company is also exposed to human capital risks due to issues related to health and safety matters, and other environmental stressors as a result of measures implemented in response to the COVID-19 pandemic, as well as the potential for a proportion of the Company's employees, including key executives, to be unable to work effectively, because of illness, quarantines, sheltering-in-place arrangements, government actions or other restrictions in connection with the pandemic.

The extent to which the COVID-19 pandemic continues to impact the Company's results, business, financial condition or liquidity will depend on future developments in Canada, the U.S. and globally, including the development and widespread availability of efficient and accurate testing options, and effective treatment options or vaccines.

See “Forward-Looking Information” in this MD&A and “Risk Factors” in Tenaz's most recently filed annual information form for additional information.

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

The use of fracture stimulations has been ongoing safely in an environmentally responsible manner in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells, there is increased communication between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation or changes of law which may make the operation of the Company's business more expensive or prevent the Company from operating its business as currently conducted. Tenaz focuses on conducting transparent, safe and responsible operations.

Additional information is available in Tenaz's AIF that is filed on SEDAR at www.sedar.com.

CHANGE IN ACCOUNTING POLICIES

As described in Note 1 and 18 of the Consolidated Financial Statements, effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to decommissioning liability to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The Company had previously utilized a risk-free discount rate to determine the discounted amount of the liability. Tenaz believes that discounting asset retirement obligations based on a credit-adjusted risk-free discount rate more closely approximates the value at which such liabilities could be transferred to a third party, increases the comparability of its financial statements to certain peer companies, provides a better indication of the risk associated with such obligations and results in reliable and more relevant information for the readers of the Company's financial statements.

The change in accounting policy did not have an impact on the Company's operations, cash flows, capital expenditures or strategic objectives and was applied retrospectively, resulting in the restatement of previously reported amounts as follows:

Consolidated Balance Sheets

As at	December 31, 2021	December 31, 2020			January 1, 2020		
($000)	Effect of change	Previous accounting policy	Effect of change	Restated	Previous accounting policy	Effect of change	Restated
E&E Assets	-	260	-	260	1,170	(11)	1,159
Property and equipment	(538)	32,872	-	32,872	51,574	(3,276)	48,298
Decommissioning liability	194	5,777	(3,672)	2,105	5,363	(3,727)	1,636
Deferred taxes	-	-	-	-	1,472	87	1,559
Retained earnings (deficit)	(732)	(22,063)	3,672	(18,391)	250	353	603

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31,	2021	2020		
($000)	Effect of change	Previous accounting policy	Effect of change	Restated
Depletion, depreciation and amortization	31	3,854	(142)	3,712
Impairment	487	23,560	(3,290)	20,270
Accretion of decommissioning liability	96	66	98	164
(Gain) loss on property dispositions	118	(1,224)	102	(1,122)
Deferred income tax recovery	-	(1,472)	(87)	(1,559)
Net income (loss) and comprehensive income (loss)	(732)	(22,313)	3,319	(18,994)
Net income (loss) per share ($/share)				
Basic	(0.05)	(2.05)	0.30	(1.74)
Diluted	(0.05)	(2.05)	0.30	(1.74)

Consolidated Statements of Cash Flows

The change in accounting policy did not have an impact on the Company's cash flows.

ADVISORIES

Non-GAAP and Other Financial Measures

This MD&A and fourth quarter report contains the terms funds flow from operations, capital expenditures, and capital expenditures, net of dispositions which are considered "non-GAAP financial measures" and operating netback which is considered a "non-GAAP financial ratio". These terms do not have a standardized meaning prescribed by GAAP. In addition, this MD&A contains the term adjusted working capital (net debt), which is considered a "capital management measure". Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that these measures should not be construed as an alternative to net income (loss) determined in accordance with GAAP and these measures should not be considered to be more meaningful than GAAP measures in evaluating the Company's performance.

a) Non-GAAP Financial Measures

Funds flow from operations

Tenaz considers funds flow from operations to be a key measure of performance as it demonstrates the Company's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and to repay debt. Funds flow from operations is calculated as cash flow from operating activities, before changes in non-cash operating working capital. Funds flow from operations is not intended to represent cash flows from operating activities calculated in accordance with IFRS. A summary of the reconciliation of cash flow from operating activities to funds flow from operations, is set forth below:

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Cash flow from operating activities	**373**	1,982	206	**3,945**	2,406
Change in non-cash working capital	**(157)**	(633)	612	**(446)**	96
Funds flow from operations	**216**	1,349	818	**3,499**	2,502

Capital Expenditures and Capital Expenditures, Net of Dispositions

Management uses the terms "capital expenditures" and "capital expenditures, net of dispositions" as measures of capital investment in exploration and production activity, as well as property acquisitions and dispositions, and such spending is compared to the Company's annual budgeted capital expenditures. The most directly comparable GAAP measure for capital expenditures and capital expenditures, net of dispositions is cash flow used in investing activities. A summary of the reconciliation of cash flow used in investing activities to capital expenditures and capital expenditures, net of dispositions, is set forth below:

($000)	**Q4 2021**	Q3 2021	Q4 2020	**2021**	2020
Cash flow used in investing activities	**1,645**	2,442	180	**4,238**	6,497
Change in non-cash working capital	**4,195**	172	(75)	**4,403**	(369)
Capital expenditures, net of dispositions	**5,840**	2,614	105	**8,641**	6,128
Property dispositions	**-**	-	-	**1,750**	1,746
Capital expenditures	**5,840**	2,614	105	**10,391**	7,874

b) Non-GAAP Financial Ratio

Operating Netback

Tenaz calculates operating netback on a per boe basis, as petroleum and natural gas sales less royalties, operating costs and transportation costs. Operating netback is a key industry benchmark and a measure of performance for Tenaz that provides investors with information that is commonly used by other crude oil and natural gas producers. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis. Tenaz's operating netback is disclosed in the "Operating Netback" section of this MD&A.

c) Capital Management Measure

Adjusted working capital (net debt)

Management views adjusted working capital (net debt) as a key industry benchmark and measure to assess the Company's financial position and liquidity. Adjusted working capital (net debt) is calculated as current assets less current liabilities, excluding the fair value of financial instruments. Tenaz's adjusted working capital (net debt) is disclosed in the "Capital Resources and Liquidity" section of this MD&A.

d) Supplementary Financial Measures

"**DD&A expense per boe**" is comprised of DD&A expense, as determined in accordance with IFRS, divided by the Company's total production.

"**Funds flow from operations per basic share**" is comprised of funds from operations divided by basic weighted average common shares.

"**Funds flow from operations per diluted share**" is comprised of funds from operations divided by diluted weighted average common shares.

"**Operating expense per boe**" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.

"**Realized heavy crude oil price**" is comprised of heavy crude oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's crude oil production.

"**Realized natural gas liquids price**" is comprised of NGLs commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGLs production.

"**Realized natural gas price**" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.

"**Realized petroleum and natural gas sales price**" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total production.

"**Royalties as a percentage of sales**" is comprised of royalties, as determined in accordance with IFRS, divided by commodity sales from production as determined in accordance with IFRS.

"**Royalties per boe**" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.

"**Transportation expense per boe**" is comprised of transportation expense, as determined in accordance with IFRS, divided by the Company's total production.

Barrels of Oil Equivalent

The term barrels of oil equivalent (“boe”) may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. The boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalent of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Forward-looking Information

This MD&A and fourth quarter report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "budget", "forecast", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A and fourth quarter report contains forward-looking information and statements pertaining to: Tenaz’s capital plans and budget for 2022, forecasted average production volumes for 2022, and the Company’s strategy.

The forward-looking information and statements contained in this MD&A and fourth quarter report reflect several material factors and expectations and assumptions of Tenaz including, without limitation: the continued performance of Tenaz's oil and gas properties in a manner consistent with its past experiences; that Tenaz will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Tenaz's reserves and resource volumes; certain commodity price and other cost assumptions; the continued availability of oilfield services; and the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures.

Tenaz believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations, and assumptions will prove to be correct.

The forward-looking information and statements included in this MD&A and fourth quarter report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Tenaz's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Tenaz or by third party operators of Tenaz's properties, increased debt levels or debt service requirements; inaccurate estimation of Tenaz's oil and gas reserve volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Tenaz's public documents.

The forward-looking information and statements contained in this MD&A and fourth quarter report speak only as of the date of this MD&A and fourth quarter report, and Tenaz does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

MANAGEMENT'S REPORT

To the Shareholders of Tenaz Energy Corp.

Management's Responsibility on Financial Statements

The annual consolidated financial statements of Tenaz Energy Corp. as at and for the years ended December 31, 2021 and December 31, 2020 were prepared by management within acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for the integrity, consistency, objectivity and reliability of the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the consolidated financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management. Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records are properly maintained to facilitate the preparation of consolidated financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants appointed by the shareholders, have conducted an examination of the corporate and accounting records to express their audit opinion on the consolidated financial statements. The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

/s/ Anthony Marino
President and Chief Executive Officer

/s/ Bradley Bennett
Chief Financial Officer

March 24, 2022
Calgary, Alberta

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tenaz Energy Corp.,

Opinion

We have audited the consolidated financial statements of Tenaz Energy Corp. (the "Company"), which comprise:

- the consolidated balance sheets as at December 31, 2021, December 31, 2020 and January 1, 2020
- the consolidated statements of net income (loss) and comprehensive income (loss) for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of changes in shareholders' equity for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of cash flows for the years ended December 31, 2021 and December 31, 2020
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, December 31, 2020 and January 1, 2020, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2021 and December 31, 2020 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Retrospective Change in Accounting Policy

We draw attention to Note 2(d) and note 18 to the consolidated financial statements which indicates that the Company has changed its accounting policy for decommissioning liabilities and has applied that change retrospectively. Our opinion is not modified in respect to this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is JJ Iacuone.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 24, 2022

CONSOLIDATED BALANCE SHEETS

As at

($000)	Note	**December 31, 2021**	December 31, 2020 Restated (note 18)	January 1, 2020 Restated (note 18)
ASSETS				
Current assets				
Cash and cash equivalents		**25,470**	-	142
Accounts receivable	14	**1,777**	1,086	1,819
Prepaid expenses and deposits		**252**	221	149
		27,499	1,307	2,110
Exploration and evaluation	6	**-**	260	1,159
Property and equipment	7	**47,902**	32,872	48,298
Right-of-use assets		**-**	-	199
Total assets		**75,401**	34,439	51,766
LIABILITIES				
Current liabilities				
Bank debt	8	**-**	3,985	-
Accounts payable and accrued liabilities		**6,750**	1,179	2,673
Current portion of lease liabilities	9	**61**	50	48
Current portion of decommissioning liability	10	**-**	25	15
Financial instruments	14	**600**	369	432
		7,411	5,608	3,168
Lease liabilities	9	**106**	156	194
Decommissioning liability	10	**2,569**	2,105	1,636
Deferred taxes	13	**-**	-	1,559
Total liabilities		**10,086**	7,869	6,557
SHAREHOLDERS’ EQUITY				
Share capital	11	**64,503**	37,712	37,712
Warrants	11	**3,203**	-	2,517
Contributed surplus		**7,661**	7,249	4,377
Retained earnings (deficit)		**(10,052)**	(18,391)	603
Total shareholders’ equity		**65,315**	26,570	45,209
Total liabilities and shareholders’ equity		**75,401**	34,439	51,766

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

/s/ Anna Alderson
Director

/s/ Anthony Marino
Director

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the years ended December 31

($000, except per share amounts)	Note	**2021**	2020 Restated (note 18)
REVENUE			
Petroleum and natural gas sales	12	**17,830**	8,615
Royalties		**(2,076)**	(654)
Petroleum and natural gas revenue		**15,754**	7,961
Gain (loss) on financial instruments	14	**(2,962)**	1,517
Other income		**-**	192
		12,792	9,670
EXPENSES			
Operating		**4,978**	4,273
Transportation		**737**	755
General and administrative		**2,273**	1,590
Transaction costs	11	**1,245**	-
Share-based compensation	11	**557**	286
Interest and financing charges		**291**	295
Depletion, depreciation and amortization	7	**4,660**	3,712
Impairment (reversal)	6, 7	**(9,683)**	20,270
Accretion of decommissioning liability	10	**199**	164
Gain on property dispositions	5	**(804)**	(1,122)
		4,453	30,223
Income (loss) before taxes		**8,339**	(20,553)
Deferred tax recovery	13	**-**	(1,559)
Net income (loss) and comprehensive income (loss)		**8,339**	(18,994)
Net income (loss) per share	11		
Basic		**0.57**	(1.74)
Diluted		**0.56**	(1.74)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

($000)	Note	Share capital	Warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, January 1, 2020 (Restated)	18	37,712	2,517	4,377	603	45,209
Share-based compensation expense	11	-	103	183	-	286
Share-based compensation capitalized	11	-	22	47	-	69
Expiry of performance warrants	11	-	(2,642)	2,642	-	-
Net loss for the year (Restated)	18	-	-	-	(18,994)	(18,994)
Balance, December 31, 2020 (Restated)	18	**37,712**	**-**	**7,249**	**(18,391)**	**26,570**
Issued on recapitalization transaction	11	29,500	-	-	-	29,500
Allocation to warrants	11	(3,203)	3,203	-	-	-
Issued on rights offering	11	1,832	-	-	-	1,832
Share issue costs	11	(1,808)	-	-	-	(1,808)
Exercise of stock options	11	470	-	(173)	-	297
Repurchase of stock options	11	-	-	(34)	-	(34)
Share-based compensation expense	11	-	-	557	-	557
Share-based compensation capitalized	11	-	-	62	-	62
Net income for the year		-	-	-	8,339	8,339
Balance, December 31, 2021		**64,503**	**3,203**	**7,661**	**(10,052)**	**65,315**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

($000)	Note	2021	2020 Restated (note 18)
CASH FLOW FROM OPERATING ACTIVITIES			
Net income (loss) for the year		**8,339**	(18,994)
Items not involving cash:			
Unrealized (gain) loss on financial instruments	14	**231**	(63)
Other income		**-**	(192)
Share-based compensation	11	**557**	286
Depletion, depreciation and amortization	7	**4,660**	3,712
Impairment (reversal)	6,7	**(9,683)**	20,270
Accretion of decommissioning liability	10	**199**	164
Gain on property dispositions	5	**(804)**	(1,122)
Deferred tax recovery	13	**-**	(1,559)
Change in non-cash working capital	16	**446**	(96)
		3,945	2,406
CASH FLOW USED IN INVESTING ACTIVITIES			
Exploration and evaluation asset expenditures	6	**(80)**	(4,008)
Property and equipment expenditures	7	**(10,311)**	(3,866)
Property dispositions	5	**1,750**	1,746
Change in non-cash working capital	16	**4,403**	(369)
		(4,238)	(6,497)
CASH FLOW FROM FINANCING ACTIVITIES			
(Repayment) advance of bank debt	8	**(3,985)**	3,985
Issuance of common shares, net of issue costs	11	**29,524**	-
Proceeds from the exercise of stock options	11	**297**	-
Repurchase of stock options	11	**(34)**	-
Principal payments on lease liabilities		**(39)**	(36)
		25,763	3,949
CHANGE IN CASH AND CASH EQUIVALENTS		**25,470**	(142)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**-**	142
CASH AND CASH EQUIVALENTS, END OF YEAR		**25,470**	-
Cash interest paid		**291**	295

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY

Tenaz Energy Corp. ("**Tenaz**" or the "**Company**") (formerly Altura Energy Inc.) is an energy company focused on the acquisition and sustainable development of international oil and gas assets capable of returning free cash flow to shareholders. In addition, Tenaz conducts development of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. Tenaz is the corporation resulting from the amalgamation of Tenaz Energy Corp. and Altura Energy Inc. on October 15, 2021 under the *Business Corporations Act* (Alberta) ("**ABCA**"). The Company is headquartered in Calgary and is an Alberta-based reporting entity whose shares are listed on the TSX Venture Exchange under the symbol: TNZ.V. Tenaz's principal place of business is located at 2500, 605 5th Avenue SW, Calgary, Alberta, T2P 3H5.

Recapitalization Transaction

On October 8, 2021, Tenaz announced the completion of the Recapitalization Transaction (defined herein), pursuant to which the Company raised aggregate gross proceeds of $31.3 million pursuant to two equity private placements and a rights offering, a new management team was appointed and the board of directors of the Company was reconstituted. Details of the Recapitalization Transaction are provided in note 11 of these financial statements.

Share Consolidation

On October 7, 2021, shareholders of the Company approved the Company to consolidate the number of common shares. The share consolidation was effected on December 23, 2021 on a 10-to-1 basis. The number of shares, warrants and options outstanding have been adjusted on a retroactive basis.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These consolidated financial statements (the "**Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

These Financial Statements were approved by the Board of Directors on March 24, 2022.

(b) Basis of Measurement and Principles of Consolidation

These Financial Statements have been prepared on a historical cost basis and include the accounts of Tenaz and its wholly-owned subsidiary, 1880675 Alberta Ltd., a corporation existing under the ABCA.

(c) Functional and Presentation Currency

The Financial Statements are presented in Canadian dollars, which is the Company and its subsidiary's functional currency.

(d) Voluntary Change in Accounting Policy

Effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to its decommissioning liability to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The Company had previously utilized a risk-free discount rate to determine the discounted amount of the liability. Tenaz believes that discounting asset retirement obligations based on a credit-adjusted risk-free discount rate more closely approximates the value at which such liabilities could be transferred to a third party, increases the comparability of its financial statements to certain peer companies, provides a better indication of the risk associated with such obligations and results in reliable and more relevant information for the readers of the Company's financial statements. The change in accounting policy was applied retrospectively, including the restatement of comparative amounts in these Financial Statements. The impact of this change in accounting policy is described in Note 18.

(e) Future Accounting and Other Reporting Standards

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance ("**ESG**") and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 - *Disclosure of Climate-related Matters*. The effect and cost to comply with these standards, and others that may be developed or evolve over time, has not yet been determined.

(f) Use of Estimates and Judgement

The preparation of Financial Statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ as a result of using estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The Company faces uncertainties related to future environmental laws and climate-related regulations, which could affect the Company's financial position and future earnings. This transition to a lower-carbon society, as well as the physical impacts of climate change, could result in increased operating costs and reduced demand for oil and gas products. As a result, this could change a number of variables and assumptions used to determine the estimated recoverable amounts of the Company's oil and gas assets. The unpredictable nature, timing and extent of climate-related initiatives presents various risks and uncertainties, including to management's judgements, estimates and assumptions that affect the application of accounting policies.

Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the Financial Statements.

The determination of a cash generating unit ("CGU") and whether an acquisition transaction constitutes a business combination is subject to management judgments. The recoverability of property and equipment and exploration and evaluation assets are assessed at the CGU level. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. Each acquisition transaction is reviewed by management and judgment is used when determining if the transaction met the IFRS 3 inputs and processes criteria for business combinations.

Management applies judgment in assessing the existence of indicators of impairment and impairment reversal based on various internal and external factors. The estimated recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use. The estimated recoverable amount is derived from estimated proved and probable oil and gas reserves and the related cash flows and estimated discount rates. Estimated proved and probable oil and gas reserves and the related cash flows are based on significant assumptions which include forecasted oil and gas commodity prices, forecasted production, forecasted royalty costs, forecasted operating costs and forecasted future development costs. Certain undeveloped land is also included in the estimated recoverable amount and significant judgement is used in estimating the recoverable amount including recent sales of similar properties in the same general area, recent exploration and discovery activity in the general area, and the remaining term of the undeveloped land.

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability has been achieved.

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. The measurement of lease liabilities is subject to management's judgment of the applicable incremental borrowing rate as discussed in note 3.

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key sources of estimation uncertainty:

The following are key estimates and the assumptions made by management affecting the measurement of balances and transactions in these Financial Statements.

The amounts recorded for the depletion of property and equipment, the provision for decommissioning liability and the amounts used in the impairment calculations are based on estimates of proved and probable oil and gas reserves and the related cash flows. Estimated proved and probable oil and gas reserves and the related cash flows are based on significant assumptions which include forecasted oil and gas commodity prices, forecasted production, forecasted royalty costs, forecasted operating costs and forecasted future development costs. By their nature these estimates and assumptions are subject to uncertainty, and the impact on the financial statements of future periods could be material.

The decommissioning liability amounts recorded are based on estimates of inflation rates, credit-adjusted risk-free rates, timing of abandonments and future abandonment costs, all of which are subject to uncertainty. Actual results could differ as a result of using estimates.

Share-based compensation expense involves the estimate of the fair value of stock options and warrants at time of issue. The estimate involves assumptions regarding the life of the option or warrant, dividend yields, interest rates, and volatility of the security subject to the option. The charge is measured using the Black-Scholes option pricing model, which could be replaced by a pricing model producing different results.

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon estimated proved and probable oil and gas reserves and the related cash flows and discount rates.

Income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The reversal timing of temporary differences are based on management estimates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in net income (loss) in the period that the change occurs. The actual amount of income tax may be greater than or less than the estimates and the differences may be material.

Tenaz follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of revenues, royalties, operating, transportation and other expenses and capital items related to the period being reported, for which actual results have not yet been received. It is expected that these accrual estimates will be revised, upwards or downwards, based on the receipt of actual results.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. Tenaz recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

Tenaz evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if Tenaz obtains control of the product delivered, which is indicated by Tenaz having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Tenaz acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

(b) Cash and cash equivalents

Cash and cash equivalents, if any, consist of cash on hand, deposits and term investments held with a financial institution with an original maturity of three months or less.

(c) Jointly owned assets

Many of the Company's oil and natural gas activities involve jointly owned assets. The financial statements include Tenaz's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

(d) Share-based compensation

The Company accounts for its share-based compensation plan using the fair value method, which is estimated using the Black-Scholes model. Under this method, a compensation expense is charged over the vesting period for stock options and performance warrants granted using the graded vesting method with a corresponding increase to contributed surplus. Upon exercise of the stock options or performance warrants, consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Forfeitures of stock options and performance warrants are estimated on the grant date and are adjusted to reflect the actual number of options that vest.

(e) Exploration and evaluation assets

Exploration and Evaluation ("**E&E**") costs incurred prior to acquiring the legal right to explore in an area are charged directly to net income (loss). Costs incurred after the legal right to explore is obtained, but before technical feasibility and commercial viability of the area has been established, are capitalized as E&E assets. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs and other directly attributable administrative costs.

Once an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment. The carrying value, net of any impairment, is then reclassified to property and equipment as a Developed and Producing ("**D&P**") asset. If an area is determined not to be technically feasible and commercially viable, or the Company discontinues its exploration and evaluation activity, any unrecoverable costs are charged to net income (loss).

Gains and losses on disposals of exploration and evaluation assets are determined by comparing the proceeds to the net carrying value of the properties and are recognized in net income (loss).

(f) Property and equipment

Property and equipment, which include D&P assets and administrative assets, are measured at cost less accumulated depletion, depreciation and accumulated impairment losses. D&P assets include mineral lease acquisitions, geological and geophysical, drilling and completion, facility and production equipment, other directly attributable administrative costs and the initial estimate of the costs of dismantling and removing an asset and restoring the site on which it was located.

Gains and losses on disposals of properties are determined by comparing the proceeds to the net carrying value of the properties and are recognized in net income (loss).

(g) Depletion and depreciation

D&P and E&E assets, if producing, are separated into groups of assets with similar useful lives for the purposes of performing depletion calculations. Depletion expense is calculated on the unit-of-production basis based on:

(i) total estimated proved and probable oil and gas reserves calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities;

(ii) total capitalized costs, including capitalized decommissioning costs, plus estimated future development costs of proved and probable oil and gas reserves; and

(iii) relative volumes of oil and gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

(h) Impairment

Developed and Producing Assets

D&P assets are aggregated into cash generating units ("**CGUs**") for the purposes of impairment testing. CGUs are groups of assets that generate independent cash inflows and are generally defined based on geographic areas, with consideration given to how the assets are managed.

D&P assets are reviewed for impairment at a CGU level when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its estimated recoverable amount which is defined as the higher of its fair value less costs of disposal or its value in use.

When the carrying value exceeds the estimated recoverable amount an impairment loss is recognized in net income (loss).

Reversals of impairments are recognized when previously recorded impairment losses have decreased or no longer exist. Impairments can only be reversed in future periods up to the carrying amount that would have been determined, net of depletion and depreciation, had no impairment losses been previously recognized.

Exploration and Evaluation Assets

E&E assets are assessed for impairment when E&E assets are transferred to development and production assets once an area is determined to be technically feasible and commercially viable, and any time that circumstances arise which suggest that the carrying amount exceeds the estimated recoverable amount. The estimated recoverable amount is the greater of fair value less costs of disposal or value in use.

(i) Financial instruments

Amortized Cost

Cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, lease liabilities, and bank debt are initially measured at fair value and subsequent measured at amortized cost using the effective interest method.

Fair Value through Profit or Loss ("**FVTPL**")

Tenaz may enter into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. All risk management contracts are initially measured at FVTPL and are subsequently measured at fair value with changes in fair value recorded in net income (loss). The fair values of these derivative instruments are based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

Impairment of Financial Assets

Impairment of financial assets is determined by measuring the assets' expected credit loss. Accounts receivable are due within one year and are not considered to have a significant financing component and a lifetime expected credit loss is measured at the date the accounts receivable are initially recognized.

(j) Decommissioning liabilities

The Company's oil and gas operating activities give rise to dismantling, decommissioning and site remediation activities. Tenaz recognizes a liability for the estimated present value of the future decommissioning liabilities at each balance sheet date using a credit-adjusted risk-free discount rate. The associated decommissioning cost is capitalized and amortized over the same period as the underlying asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and related capitalized decommissioning cost.

Amortization of capitalized decommissioning costs is included in depreciation, depletion and amortization in net income (loss). Increases in decommissioning liabilities resulting from the unwinding of the discount rate are recorded as accretion. Actual expenditures incurred are charged against the decommissioning liability.

(k) Leases

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases are recognized as a right-of-use ("**ROU**") asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net income (loss) over the lease term.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in net income (loss) if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability and any initial direct costs incurred less any lease payments made at or before the commencement date.

The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in net income (loss) on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net income (loss) that reflects the proportionate decrease in scope.

(l) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. 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 acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net income (loss). Transaction costs associated with a business combination are expensed as incurred.

There is an option to apply a concentration test that permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. The optional concentration test is met if substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

(m) Deferred income taxes

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting dates.

Deferred tax is recognized in net income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(n) Per share amounts

Basic per share amounts are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted per share amounts reflect the potential dilution from dilutive instruments.

(o) Interest income and expenses

Interest and financing charges include interest expense on borrowings, standby fees on the unutilized credit facilities, letter of credit fees issued against the credit facilities, renewal fees of the credit facilities and leases. Interest income is recognized as it is earned.

(p) Share capital

Proceeds from the issuance of common shares are classified as equity. Incremental costs directly attributable to the issuance of shares, net of tax, are recognized as a deduction from equity.

(q) Fair value of warrants

The fair value of warrants is estimated using the Black-Scholes option pricing model. The model requires that management make assumptions for the following: the expected life or period in which the warrants will be held prior to exercise; the anticipated volatility of the share price over the expected life; the risk-free interest rate for the life of the warrant; and the number of warrants that will ultimately vest. The fair value allocated to warrants is highly sensitive to these assumptions. Refer to note 11 for details of the specific assumptions applied during the year ended December 31, 2021.

(r) Government grants

Tenaz recognizes government grants as they are received or if there is reasonable assurance that the Company is in compliance with all associated conditions. When the grant relates to an expense item, it is recognized as a reduction to the related expense in the period in which the costs are incurred. If the grant relates to an asset, it is recognized as a reduction to the carrying value of the asset and amortized into income over the expected useful life of the asset through lower depletion and depreciation.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property and equipment and/or exploration and evaluation assets

The fair value of property and equipment recognized is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) are generally estimated with reference to the discounted cash flow expected to be derived from proved and probable oil and gas reserves as prepared by independent third-party reserve evaluators and independent land values. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of exploration and evaluation assets is estimated with reference to the market values of current arm's length transactions in comparable locations.

(ii) Cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, lease liabilities, and bank debt

The fair value of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, lease liabilities, and bank debt, if any, are estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2021 and December 31, 2020, the fair value of these balances approximated their carrying value due to their short term to maturity. The Company's credit facility charges interest at a floating rate and the margins charged by the lender are indicative of current credit spreads. Accordingly the fair market value approximates the carrying value.

(iii) Share-based payments and warrants

The fair value of share-based payments and warrants is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the awards were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price (based on weighted average historical daily traded volatility), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividend yield and the risk-free interest rate (based on government bonds).

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy level.

5. DISPOSITIONS

On June 15, 2021, Tenaz closed the final working interest disposition pursuant to a definitive agreement that was signed on December 31, 2019 and amended on June 26, 2020 and January 22, 2021 with an unrelated third party. Three dispositions closed in 2021, two in 2020 and one in 2019. Details of the 2020 and 2021 dispositions are included below:

			Allocation of Proceeds			
Disposition date	Working Interest (%)	Cash Proceeds ($000)	D&P Asset Dispositions ($000)	E&E Asset Dispositions ($000)	Decommissioning liability ($000)	Gain on disposition ($000)
2020						
June 30, 2020	1.3750	871	(328)	(3)	23	563
September 30, 2020	1.3750	875	(327)	(3)	14	559
2020 Total	2.7500	1,746	(655)	(6)	37	1,122
2021						
January 29, 2021	0.6875	438	(252)	(2)	15	199
April 27, 2021	0.6875	437	(251)	(2)	18	202
June 15, 2021	1.3750	875	(503)	(4)	35	403
2021 Total	**2.7500**	**1,750**	**(1,006)**	**(8)**	**68**	**804**

6. EXPLORATION AND EVALUATION

The following table reconciles Tenaz's Exploration and Evaluation assets:

($000)	Total
Balance, December 31, 2019	1,159
Additions	3,787
Change in decommissioning costs (note 18)	75
Dispositions (note 5)	(6)
Impairment	(4,755)
Balance, December 31, 2020	260
Additions	80
Change in decommissioning costs (note 18)	6
Dispositions (note 5)	(8)
Impairment	(338)
Balance, December 31, 2021	**-**

E&E assets consist of the Company's projects that have yet to be established as technically feasible and commercially viable. Additions represented Tenaz's share of costs incurred on E&E assets at its Entice area during the periods. Tenaz capitalized cash and non-cash administrative costs directly attributable to E&E additions of $nil in the year ended December 31, 2021 (2020 – $0.1 million).

Impairment

2021

For the year ended December 31, 2021, the Company determined that indicators of impairment existed with respect to its E&E assets, which are all in the Entice area, and Tenaz recognized an impairment charge of $0.3 million on E&E assets. The estimated recoverable amount for the Entice E&E assets was $nil based on no oil and gas reserves in the Company's December 31, 2021 reserve report prepared by its independent third-party reserve evaluators.

2020

For the year ended December 31, 2020, the Company determined that indicators of impairment existed with respect to its E&E assets which are all in the Entice area and Tenaz recognized an impairment charge of $4.8 million E&E assets.

For impairment testing, the estimated recoverable amount of E&E assets is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Entice E&E assets of $0.3 million was based on the probable oil and gas reserves and related cash flow from Tenaz's December 31, 2020 reserve report prepared by its independent third-party reserve evaluators. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Entice area, net of decommissioning obligations and included recoverable value for certain undeveloped land, based on management's estimates as at December 31, 2020, which were established principally on relevant land sales. The discount rate used in the valuation was 55 percent.

7. PROPERTY AND EQUIPMENT

The following table reconciles Tenaz's property and equipment:

Cost ($000)	**Developed and Producing Assets**	**Administrative Assets**	**Total**
Balance, December 31, 2019	67,073	193	63,266
Additions	3,778	10	3,788
Dispositions (note 5)	(1,947)	-	(1,947)
Change in decommissioning costs (note 18)	469	-	469
Balance, December 31, 2020	65,373	203	65,576
Additions	10,335	38	10,373
Dispositions (note 5)	(2,044)	-	(2,044)
Change in decommissioning costs (note 18)	302	-	302
Balance, December 31, 2021	**73,966**	**241**	**74,207**
Depletion, depreciation and impairment ($000)			
Balance, December 31, 2019	(14,889)	(79)	(14,968)
Depletion, depreciation and amortization	(3,672)	(29)	(3,701)
Dispositions (note 5)	1,292	-	1,292
Impairment (note 18)	(15,327)	-	(15,327)
Balance, December 31, 2020	(32,596)	(108)	(32,704)
Depletion, depreciation and amortization	(4,631)	(29)	(4,660)
Dispositions (note 5)	1,038	-	1,038
Impairment reversal (note 18)	10,021	-	10,021
Balance, December 31, 2021	**(26,168)**	**(137)**	**(26,305)**
Carrying amounts ($000)			
As at December 31, 2020	32,777	95	32,872
As at December 31, 2021	**47,798**	**104**	**47,902**

Estimated future development costs of $102.6 million (December 31, 2020 – $88.9 million) associated with the development of the Company's proved and probable oil and gas reserves were added to the Company's net book value in the depletion and depreciation calculation. Tenaz capitalized cash and non-cash administrative costs directly attributable to property and equipment of $0.4 million in the year ended December 31, 2021 (2020 – $0.3 million).

Impairment

December 31, 2021

At December 31, 2021, there were indicators of impairment reversal identified in Tenaz's Leduc-Woodbend CGU as a result of, amongst other factors considered by management, improved forecasted commodity prices for heavy crude oil since December 31, 2020 and the Recapitalization Transaction. Tenaz has only one CGU. An impairment test was performed on D&P assets and no additional impairment reversal was recorded as the estimated recoverable amount approximated the carrying value.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2021 reserve report prepared by its independent third-party reserve evaluators. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on management's estimates as at December 31, 2021 which were established principally on relevant land sales. The discount rates used in the valuation ranged from 12% to 30%, with an overall weighted average discount rate of approximately 20%.

The following table details the forecasted oil and gas commodity pricing used in estimating the recoverable amount of Tenaz's Leduc-Woodbend CGU at December 31, 2021:

	WTI Crude Oil ($US/bbl) (1,2)	Western Canadian Select Crude Oil ($CAD/bbl) (1,2)	Alberta AECO Gas ($CAD/mmbtu) (1,2)	Foreign Exchange ($US/$CAD) (1)
2022	72.83	74.42	3.56	0.797
2023	68.78	69.17	3.21	0.797
2024	66.76	66.54	3.05	0.797
2025	68.09	67.87	3.11	0.797
2026	69.45	69.23	3.17	0.797
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.797

(1) Source: Three Consultants' average, McDaniel & Associates Consultants, GLJ Petroleum Consultants, and Sproule Associates price forecasts, effective January 1, 2022.

(2) Product sale prices will reflect these reference prices with further adjustments for product quality differentials and transportation to point of sale.

September 30, 2021

At September 30, 2021, there were indicators of impairment reversal identified in Tenaz's Leduc-Woodbend CGU as a result of, amongst other factors considered by management, improved forecasted commodity prices for heavy crude oil since December 31, 2020. An impairment test was performed on D&P assets and the Company recognized an impairment reversal of $10.0 million related to its Leduc-Woodbend CGU due to the estimated recoverable amount, using value in use, of $43.3 million exceeding the carrying value.

December 31, 2020

At December 31, 2020, there were indicators of impairment reversal identified in Tenaz's Leduc-Woodbend CGU as a result of, amongst other factors considered by management, improved forecasted commodity prices for heavy crude oil since the last impairment test performed on March 31, 2020. An impairment test was performed on D&P assets and the Company recognized an impairment reversal of $11.1 million related to its Leduc-Woodbend CGU due to the estimated recoverable amount of $32.9 million exceeding the carrying value.

The initial impairment expense of $26.7 million on D&P and ROU assets recognized at March 31, 2020, net of the impairment recovery of $11.2 million at December 31, 2020 on D&P assets, resulted in a net impairment expense of $15.6 million (refer to note 18) recognized for the year ended December 31, 2020.

The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2020 reserve report prepared by its independent third-party evaluators. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on an independent land evaluation at December 31, 2020. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 20 percent.

March 31, 2020

At March 31, 2020, the Company determined there to be indicators of impairment in its Leduc-Woodbend CGU due to the potential long-term impact of the COVID-19 pandemic which caused a significant decline in forecasted oil benchmark prices and due to a decline in Tenaz's market capitalization in the first quarter of 2020. In the three months ended March 31, 2020, the Company recognized an impairment charge of $26.7 million (note 18) related to its Leduc-Woodbend CGU due to the carrying value exceeding the estimated recoverable amount. Included in the impairment charge is $0.2 million related to impairment of the Company's ROU assets.

The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2019 reserve report prepared by its independent third-party reserve evaluators, updated by the Company's internal reserve evaluator. The updates included:

- forecasted oil and gas commodity prices at April 1, 2020;
- revised timing of future development costs;
- revised operating cost assumptions; and
- removed production from January 1, 2020 to March 31, 2020.

The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on management's estimates as at March 31, 2020 which were established principally on relevant land sales. The discount rates used in the valuation ranged from 10 percent to 30 percent, with an overall weighted average discount rate of approximately 17 percent.

8. CREDIT FACILITIES

At December 31, 2021, the Company had a revolving operating demand loan (the "**Operating Loan**") with a Canadian bank (the "**Lender**") with a maximum borrowing limit of $4.0 million. On October 18, 2021, the Company repaid and canceled its $3.0 million term loan with its Lender which was guaranteed through the Business Credit Availability Program from the Export Development Bank of Canada (the "**Term Loan**").

Tenaz's bank debt at December 31, 2021 and December 31, 2020 is summarized as follows:

($000)	**December 31, 2021**	December 31, 2020
Operating Loan	**-**	985
Term Loan	**-**	3,000
Bank debt	**-**	3,985

The Operating Loan is revolving, payable on demand and contains customary material adverse change clauses. The borrowing base of the Operating Loan is based on the Lenders' interpretation of Tenaz's estimated proved and probable oil and natural gas reserves and forecasted commodity prices. As a result, there can be no assurance as to the amount of available limit that will be determined at each scheduled review. The Operating Loan can be drawn in whole multiples of a minimum of $10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of $0.75 million.

The Operating Loan is secured by a general security agreement providing a security interest over all present and after acquired property, a floating charge on all lands, and a $30.0 million debenture with a first floating charge over all assets of the Company.

The interest rate on the Operating Loan (and the Term Loan before it was canceled) is the Lender's prime rate plus 3.5%. Fees for Letters of Credit issued under the Operating Loan are 3.5% and standby fees on the unused portion of the authorized amount of the Operating Loan are 0.875%.

Tenaz is subject to certain reporting and financial covenants including:

- the Company is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Operating Loan and the fair value of any commodity contracts are excluded and the unused portion of the Operating Loan is added to current assets.
- the Company will, at all times, maintain hedging agreements covering no less than 350 bbls/d of oil (Western Canadian Select) and no less than 1,000 GJ/d of natural gas (AECO) for no less than the succeeding nine-month period, on a rolling basis; and
- the Company will maintain a Licensee Liability Rating ("**LLR**") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at December 31, 2021, the working capital ratio as defined was 4.60:1 (December 31, 2020 – 5.00:1) and the Company was compliant with the LLR covenant (6.23 at March 24, 2022). In December 2021, Tenaz's Lender waived the hedging covenant for the quarter ended December 31, 2021, relating to maintaining hedge agreements for the succeeding nine-month period.

As at December 31, 2021, bank debt was nil (December 31, 2020 - $4.0 million) and the Company had outstanding letters of credit for $0.15 million (December 31, 2020 - $0.05 million).

The next review date for the Operating Loan has been scheduled for May 31, 2022 but may be set at an earlier or later date at the sole discretion of the Lender.

9. LEASE LIABILITIES

The following table reconciles lease liabilities associated with office space and equipment obligations:

($000)	Total
Balance, December 31, 2019	242
Lease interest	12
Total cash outflow	(48)
Balance, December 31, 2020	206
Lease interest	11
Total cash outflow	(50)
Balance, December 31, 2021	**167**

Tenaz has the following future commitments:

($000)	**As at December 31, 2021**
Total lease payments	180
Impact of discounting	(13)
Lease liabilities	**167**
Payments due within one year	61
Payments due beyond one year (2023–2024)	106

10. DECOMMISSIONING LIABILITY

The Company's decommissioning liability results from its net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Tenaz estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations as at December 31, 2021 to be approximately $5.6 million (December 31, 2020 – $5.4 million) with the majority of costs anticipated to be incurred between 2030 and 2040. A credit-adjusted risk-free rate of 8.4% (December 31, 2020 – 9.2%) and an inflation rate of 1.7% (December 31, 2020 – 1.5%) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

($000)	**Year ended December 31, 2021**	Year ended December 31, 2020
Balance, beginning of period(1)	**2,130**	1,651
Additions	**51**	38
Liabilities disposed	**(68)**	(37)
Change in estimates(2)	**257**	506
Liabilities settled(3)	**-**	(192)
Accretion	**199**	164
Balance, end of period	**2,569**	2,130
Expected to be incurred within one year	**-**	25
Expected to be incurred beyond one year	**2,569**	2,105

(1) 2020 amounts restated, refer to note 18.
(2) The change in estimates is due to a change in the discount and inflation rates totaling $318,000 (December 31, 2020 - $273,000) offset by a decrease in abandonment and remediation cost estimates and future abandonment dates totaling $61,000 (December 31, 2020 - $233,000 increase in abandonment and remediation cost estimates and future abandonment dates).
(3) For the year ended December 31, 2020, $192,000 of obligations were indirectly settled through a government subsidy, whereby third-party service providers were reimbursed on behalf of Tenaz. Tenaz recorded the $192,000 government subsidy in other income for the year ended December 31, 2020.

11. SHARE CAPITAL

(a) Authorized:
- Unlimited number of voting common shares.
- Unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the Board of Directors at the time of issuance.

(b) Issued and outstanding:

	Number of common shares	**Amount ($000)**
Balance, December 31, 2019 and December 31, 2020	10,892,097	37,712
Issuance of common shares on recapitalization (i)	13,611,200	24,500
Issuance of units on recapitalization (i)	2,777,800	5,000
Allocation to warrants (note 11d)	-	(3,203)
Issuance of common shares on rights offering (i)	1,017,984	1,832
Exercise of stock options (ii)	139,000	470
Fractional rounding on share consolidation	(7)	-
Share issue costs (i)	-	(1,808)
Balance, December 31, 2021	**28,438,074**	**64,503**

On December 23, 2021, the Company completed a 10-to-1 common share consolidation. The number of shares, warrants and options outstanding have been adjusted on a retroactive basis.

(i) Recapitalization Transaction

On October 7, 2021, shareholders approved a recapitalization transaction (the "**Recapitalization Transaction**") which was completed on October 8, 2021. The Recapitalization Transaction involved the following:

- The Company completed a non-brokered private placement pursuant to which 2,777,800 Units were issued at a price of $1.80 per Unit for gross proceeds of $5.0 million. Each Unit was comprised of one common share ("**Common Share**") and one warrant ("**Warrant**") of the Company, with each Warrant entitling the holder thereof to purchase one Common Share at a price of $1.80 per Common Share for a period of five years from the issuance date, subject to certain terms and conditions. The Warrants vest and become exercisable as to one-third upon the 20-day volume weighted average price of the Common Shares (the "**Market Price**") equaling or exceeding $2.50 per Common Share, an additional one-third upon the Market Price equaling or exceeding $3.15 per Common Share and a final one-third upon the Market Price equaling or exceeding $3.60 per Common Share.
- Concurrently with the closing of the non-brokered private placement, the appointment of a new management team and reconstitution of the board of directors was completed.
- On September 22, 2021, the Company completed a brokered private placement pursuant to which 13,611,200 Subscription Receipts were issued at a price of $1.80 per Subscription Receipt for gross proceeds of $24.5 million, which was held in escrow. On October 8, 2021, immediately following the completion of the change of management and the non-brokered private placement, the Company issued 13,611,200 Common Shares pursuant to the conversion of the 13,611,200 Subscription Receipts, and $24.5 million in gross proceeds was released from escrow.
- On October 15, 2021, the Company's name was changed from "Altura Energy Inc." to "Tenaz Energy Corp." through an amalgamation.
- On December 17, 2021, the Company completed a rights offering pursuant to which 1,017,984 Common Shares were issued at a price of $1.80 per Common Share for gross proceeds of $1.8 million.
- Pursuant to the Recapitalization Transaction and the rights offering, the Company incurred $1.8 million of share issue costs and $1.25 million of transaction costs.

(ii) Exercise of Stock Options

In the year ended December 31, 2021, 139,000 stock options were exercised for cash proceeds of $0.3 million. Contributed surplus related to the options exercised of $0.2 million was transferred to share capital. No stock options were exercised in the year ended December 31, 2020.

(c) Stock options:

The Company has a stock option plan for directors, employees and service providers. Under the plan, options may be granted to purchase up to 10% of the outstanding shares of Tenaz and the maximum term of options granted is five years. The Board of Directors determines the vesting schedule at the time of grant. Unless otherwise determined by the Board of Directors at the time of grant, options vest as to one-third on each of the first, second and third anniversary dates of the date of grant. As at December 31, 2021 the Company may grant up to 2,843,807 stock options.

A summary of the Company's outstanding stock options at December 31, 2021 is presented below:

	Number of Stock Options	Weighted Average Exercise Price ($)
Balance, December 31, 2019	977,000	3.51
Expired	(325,000)	3.44
Forfeited	(43,500)	3.38
Balance, December 31, 2020	608,500	3.58
Granted	2,150,000	2.57
Exercised	(139,000)	2.14
Expired	(35,000)	2.90
Forfeited	(442,000)	3.87
Repurchased and canceled(1)	(112,000)	2.70
Balance, December 31, 2021	**2,030,500**	**2.60**

(1) Pursuant to the Recapitalization Transaction, 112,000 stock options were repurchased and canceled at a cost of $34,000.

The range of exercise prices for stock options outstanding and exercisable under the plan at December 31, 2021 is as follows:

Exercise Prices		Awards Outstanding			Awards Exercisable		
Low ($)	High ($)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price ($)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price ($)
2.10	2.50	350,000	0.8	2.10	350,000	0.8	2.10
2.51	3.00	1,670,000	4.9	2.70	-	-	-
3.01	4.16	10,500	1.5	3.95	10,000	1.5	3.94
		2,030,500	**4.2**	**2.60**	**360,000**	**0.8**	**2.15**

The fair value of each option granted in the year ended December 31, 2021 was estimated using the Black-Scholes option-pricing model with weighted average assumptions for grants detailed in the following table. No options were granted in the year ended December 31, 2020.

	Year ended December 31, 2021	Year ended December 31, 2020
Weighted average fair value of options granted ($)	**1.44**	-
Risk-free interest rate (%)	**1.24**	-
Expected life (years)	**4.0**	-
Expected volatility (%)	**75.7**	-
Estimated forfeiture rate (%)	**8.7**	-
Expected dividends ($)	**-**	-

The Company’s share-based compensation relating to stock options, fair valued on the date of grant using a Black Scholes model, for the year ended December 31, 2021 was $0.6 million (2020 – $0.2 million) of which $62,000 was capitalized (2020 – $47,000).

(d) Warrants:

	Number of Warrants	Weighted Average Exercise Price ($)
Balance, December 31, 2019	974,988	4.49
Expired	(974,988)	4.49
Balance, December 31, 2020	-	4.49
Issuance of warrants on recapitalization (note 11b)	2,777,800	1.80
Balance, December 31, 2021	**2,777,800**	**1.80**

The Warrants issued in connection with the non-brokered private placement were allocated a fair value of $3.2 million. The fair value was estimated using the Black-Scholes pricing model with the following assumptions: expected life of four years; volatility of 75%; risk-free interest rate of 0.67%; and a dividend yield of 0%. The expected volatility was estimated based on a peer group historical volatility over a four-year period. As at December 31, 2021, two-thirds of the Warrants are fully vested. The Warrants will provide aggregate cash proceeds of approximately $5.0 million to the Company, if exercised by the holders. Consideration paid to the Company on the exercise of Warrants along with the fair value of Warrants will be credited to share capital.

(e) Weighted average common shares:

	Year ended December 31, 2021	Year ended December 31, 2020
Basic	**14,717,579**	10,892,097
Diluted	**14,876,424**	10,892,097

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using a method which assumes that any proceeds received by the Company upon the exercise of in-the-money stock options or warrants plus unamortized share-based compensation expense would be used to buy back common shares at the average market price for the year.

For the year ended December 31, 2021, 2,030,500 stock options were excluded from the weighted average number of common shares as they were anti-dilutive (2020 – 608,500 stock options).

12. REVENUE

The Company sells its production pursuant to variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The following table details the Company's petroleum and natural gas sales by product:

($000)	**Year ended December 31, 2021**	Year ended December 31, 2020
Heavy crude oil	**12,777**	6,227
Light crude oil & medium crude oil	**-**	78
Natural gas liquids	**1,209**	397
Natural gas	**3,844**	1,913
Petroleum and natural gas sales	**17,830**	8,615

As at December 31, 2021, receivables for revenue were $1.6 million, which are included in accounts receivable (December 31, 2020 - $0.9 million).

13. INCOME TAXES

The provision for income tax in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rates to the Company's income before taxes. This difference results from the following items:

($000)	**Year ended December 31, 2021**	Year ended December 31, 2020
Income (loss) before taxes	**8,339**	(20,553)
Combined federal and provincial income tax rate	**23.0%**	24.0%
Computed income tax expense (recovery)	**1,918**	(4,933)
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	**134**	75
Non-deductible expenses	**1**	-
Change in estimates and other	**13**	(8)
Change in corporate tax rate	**-**	204
Share issue costs	**(416)**	-
Change in unrecognized deferred tax asset	**(1,650)**	3,103
Deferred tax expense (recovery)	**-**	(1,559)

Tenaz's combined federal and provincial income tax rate declined to 23.0 percent in 2021 as a result of the Alberta corporate income tax rate decreasing from 9.0 percent to 8.0 percent for 2021.

The components of deferred income tax assets and liabilities are as follows:

($000)	**December 31, 2021**	December 31, 2020
Deferred income tax liabilities:		
Property and equipment and E&E assets	**(5,288)**	(1,788)
Deferred income tax assets:		
Decommissioning liability	**591**	490
Fair value of financial instruments	**138**	85
Lease liabilities	**39**	48
Non-capital losses	**4,507**	1,148
Other	**13**	17
Deferred tax asset (liability)	**-**	-

The following tables provide a continuity of the deferred tax asset (liability):

($000)	December 31, 2020	Recognized change through income (loss)	**December 31, 2021**
Property and equipment and E&E assets	(1,788)	(3,500)	**(5,288)**
Decommissioning liability	490	101	**591**
Fair value of financial instruments	85	53	**138**
Lease liabilities	48	(9)	**39**
Non-capital losses	1,148	3,359	**4,507**
Other	17	(4)	**13**
Deferred tax asset (liability)	-	-	**-**

($000)	December 31, 2019	Recognized change through income (loss)	December 31, 2020
Property and equipment and E&E assets	(4,926)	3,138	(1,788)
ROU assets	(47)	47	-
Decommissioning liability	380	110	490
Fair value of financial instruments	108	(23)	85
Lease liabilities	57	(9)	48
Contract liability	92	(92)	-
Non-capital losses	2,755	(1,607)	1,148
Other	22	(5)	17
Deferred tax asset (liability)	(1,559)	1,559	-

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

($000)	**December 31, 2021**	December 31, 2020
Non-capital losses	**4,868**	13,491
Share issue costs	**1,447**	-

Deferred income tax assets are recognized for tax loss and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. A deferred tax asset in the amount of $1.5 million (2020 - $3.1 million) has not been recognized as Management does not find it probable that the benefit will be realized. Included in this tax basis are estimated non-capital losses of $24.5 million at December 31, 2021 that expire between 2025 and 2041.

14. FINANCIAL INSTRUMENTS

Tenaz is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework and periodically reviews the results of all risk management activities and all outstanding positions. Management identifies and analyzes the risks faced by the Company, sets appropriate risk limits and controls, and monitors risks and market conditions and the Company's activities.

Credit Risk

Tenaz is exposed to third party credit risk through its contractual arrangements with its joint interest partners, marketers of petroleum and natural gas, financial instrument counterparties and other parties. In the event such entities fail to meet their contractual obligations to Tenaz, such failures could have a material adverse effect. The Company manages the risk by reviewing the credit risk of these entities and by entering into agreements only with parties that meet certain credit tests. The maximum credit risk that the Company is exposed to at any point in time is the carrying value of cash and cash equivalents, if any, accounts receivable and the fair value of financial instrument assets, if any.

The majority of the credit exposure on accounts receivable at December 31, 2021, pertain to revenue for accrued December 2021 production volumes and receivables from joint interest partners. Tenaz primarily transacts with four oil and natural gas marketing companies. The marketing companies typically remit amounts to Tenaz by the 25th day of the month following production. At December 31, 2021, 75 percent of total outstanding accounts receivable pertains to four marketing companies. Tenaz did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at December 31, 2021. For the year ended December 31, 2021, the Company received approximately 80 percent of its revenue from three marketing companies (2020 – 88 percent of its revenue from five marketing companies).

At December 31, 2021 and December 31, 2020, the Company's trade receivables have been aged as follows:

As at ($000)	**December 31, 2021**	December 31, 2020
Current	**1,706**	917
31 – 60 days	**28**	44
61 – 90 days	**40**	116
> 90 days	**3**	9
Allowance for doubtful accounts	**-**	-
Total	**1,777**	1,086

When determining whether amounts that are past due are collectible, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through its working capital surplus and an actively managed operating and capital expenditure budgeting process. As at December 31, 2021, the Company was holding cash and cash equivalents of $25.5 million. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Operating Loan, if any, is due on demand.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil and natural gas), foreign currency exchange risk and interest rate risk.

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. A significant change in commodity prices can materially impact the Company's cash flows and borrowing base limit under its Operating Loan. Lower commodity prices may also reduce the Company's ability to raise capital. Commodity prices for petroleum and natural gas are not only influenced by supply and demand in Canada and the United States of America, but also by world events that dictate the levels of supply and demand.

Tenaz manages the risks associated with changes in commodity prices by entering into risk management contracts. The table below summarizes the realized gains (losses) and unrealized gains (losses) on financial instruments in net income (loss).

($000)	**December 31, 2021**	December 31, 2020
Realized gain (loss) on financial instruments	(2,731)	1,454
Unrealized gain (loss) on financial instruments	(231)	63
Gain (loss) on financial instruments	(2,962)	1,517

At December 31, 2021, Tenaz held the following crude oil and natural gas contracts:

Period	**Commodity**	**Type of Contract**	**Quantity**	**Pricing Point**	**Contract Price**	**Fair Value at December 31, 2021** ($000)
Western Canadian Select ("WCS") Swap Contracts						
Jan 1/22—Jan 31/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD $51.00	(136)
Feb 1/22—Feb 28/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD $59.70	(99)
Mar 1/22—Mar 31/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD $57.50	(122)
Apr 1/22—Apr 30/22	Crude Oil	Fixed Swap	175 bbls/d	WCS	CAD $65.75	(57)
May 1/22—May 31/22	Crude Oil	Fixed Swap	175 bbls/d	WCS	CAD $65.50	(58)
WCS Differential Swap Contracts						
Jan 1/22—Mar 31/22	Crude Oil	Fixed Swap	150 bbls/d	WCS-WTI Differential	CAD ($17.95)	9
Apr 1/22—Apr 30/22	Crude Oil	Fixed Swap	175 bbls/d	WCS-WTI Differential	CAD ($17.00)	(3)
May 1/22—May 31/22	Crude Oil	Fixed Swap	175 bbls/d	WCS-WTI Differential	CAD ($16.70)	(2)
WTI Put Options						
Jan 1/22—Mar 31/22	Crude Oil	Put Option(1)	150 bbls/d	WTI	CAD $62.00	(17)
Apr 1/22—Apr 30/22	Crude Oil	Put Option(2)	175 bbls/d	WTI	CAD $62.00	(11)
May 1/22—May 31/22	Crude Oil	Put Option(3)	175 bbls/d	WTI	CAD $62.00	(8)
Natural Gas Swap Contracts						
Jan 1/22—Jan 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $2.720	(43)
Feb 1/22—Feb 28/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $3.058	(22)
Mar 1/22—Mar 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $2.790	(16)
Apr 1/22—Apr 30/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $2.680	(10)
May 1/22—May 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD $2.730	(5)
						(600)

(1) Includes a $19,000 liability to the counterparty on this contract for the deferred premium of $1.40 per barrel.
(2) Includes a $14,000 liability to the counterparty on this contract for the deferred premium of $2.65 per barrel.
(3) Includes a $14,000 liability to the counterparty on this contract for the deferred premium of $2.50 per barrel.

At December 31, 2021, the crude oil and natural gas contracts were fair valued with a liability of $0.6 million (December 31, 2020 - $0.4 million) recorded on the balance sheet.

If the forward price curves for WCS, WCS differential, WTI and AECO 5A increase or decrease by 10 percent, it is estimated that Tenaz's net income (loss) would change by approximately $0.2 million. The sensitivity is hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The result of the sensitivity is not predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

Foreign currency risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar as compared to the US dollar will reduce the prices received by Tenaz for its petroleum and natural gas sales. The Company had no risk management contracts that would be affected by foreign currency changes in place at December 31, 2021.

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 Company's Operating Loan is exposed to interest rate risk on floating interest rate indebtedness due to fluctuations in market interest rates. The Company had no risk management contracts that would be affected by interest rates in place at December 31, 2021.

If interest rates were to increase or decrease by one percent, it is estimated that Tenaz's net income (loss) would change by approximately $23,000 for the year ended December 31, 2021.

15. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company's objectives when managing capital are to i) deploy capital to provide an appropriate return on investment to its shareholders; ii) maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and iii) maintain a capital structure that provides financial flexibility to execute strategic acquisitions.

The Company's strategy is designed to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying crude oil and natural gas assets. Tenaz considers its capital structure to include shareholders' equity, working capital and bank debt, if any. In order to maintain or adjust its capital structure, the Company may from time to time issue new common shares, seek debt financing and adjust its capital spending to manage working capital.

In order to facilitate the management of its capital expenditures and working capital, the Company prepares annual budgets which are updated quarterly depending upon varying factors including current and forecast crude oil and natural gas prices, capital expenditures and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

Management views adjusted working capital (net debt) as a key industry benchmark and measure to assess the Company's financial position and liquidity. Adjusted working capital (net debt) is calculated as current assets less current liabilities, excluding the fair value of financial instruments.

Adjusted working capital (net debt) as at December 31, 2021 and December 31, 2020 is summarized as follows:

($000)	**December 31, 2021**	December 31, 2020
Current assets	**27,499**	1,307
Current liabilities	**(7,411)**	(5,608)
Working capital surplus (deficit)	**20,088**	(4,301)
Exclude fair value of financial instruments	**600**	369
Adjusted working capital (net debt)	**20,688**	(3,932)

The Company has not paid or declared any dividends since the date of incorporation. In 2021, Tenaz changed the reporting of adjusted working capital (net debt) to include the current portion of lease liabilities and current portion of decommissioning liabilities. There have been no other changes in the Company's approach to capital management in 2021.

16. SUPPLEMENTAL CASH FLOW INFORMATION

The following table details the components of non-cash working capital:

($000)	**Year ended December 31, 2021**	Year ended December 31 2020
Provided by (used in):		
Accounts receivable	**(691)**	733
Prepaid expenses and deposits	**(31)**	(72)
Accounts payable and accrued liabilities	**5,571**	(1,126)
	4,849	(465)
Provided by (used in):		
Operating activities	**446**	(96)
Investing activities	**4,403**	(369)
	4,849	(465)

17. PERSONNEL EXPENSES

The aggregate compensation of key management personnel was as follows:

($000)	**Year ended December 31, 2021**	Year ended December 31, 2020
Salaries and benefits	**1,318**	1,344
Termination benefits	**220**	-
Canada Emergency Wage Subsidy	**(113)**	(197)
Share-based compensation	**607**	350
	2,032	1,497
Capitalized portion of total compensation	**(290)**	(444)
	1,742	1,053

Tenaz's key management personnel include officers and directors of the Company. Salaries and benefits and share-based compensation include the capitalized and non-capitalized portion of these expenditures recorded in the financial statements during the respective periods. Termination benefits are comprised of severance payments to the former officers and directors associated with the Recapitalization Transaction (note 11) and are included in transaction costs in net income (loss).

18. IMPACT OF ACCOUNTING POLICY CHANGE

As described in Note 1, effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to its decommissioning liability to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The change in accounting policy was applied retrospectively, resulting in changes to amounts recorded as at and for the year ended December 31, 2021 and to previously reported amounts as follows:

Consolidated Balance Sheets

As at	December 31, 2021	December 31, 2020			January 1, 2020		
($000)	Effect of change	Previous accounting policy	Effect of change	Restated	Previous accounting policy	Effect of change	Restated
E&E Assets	-	260	-	260	1,170	(11)	1,159
Property and equipment	(538)	32,872	-	32,872	51,574	(3,276)	48,298
Decommissioning liability	194	5,777	(3,672)	2,105	5,363	(3,727)	1,636
Deferred taxes	-	-	-	-	1,472	87	1,559
Retained earnings (deficit)	(732)	(22,063)	3,672	(18,391)	250	353	603

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31,	2021	2020		
($000)	Effect of change	Previous accounting policy	Effect of change	Restated
Depletion, depreciation and amortization	31	3,854	(142)	3,712
Impairment	487	23,560	(3,290)	20,270
Accretion of decommissioning liability	96	66	98	164
(Gain) loss on property dispositions	118	(1,224)	102	(1,122)
Deferred income tax recovery	-	(1,472)	(87)	(1,559)
Net income (loss) and comprehensive income (loss)	(732)	(22,313)	3,319	(18,994)
Net income (loss) per share ($/share) (note 11)				
Basic	(0.05)	(2.05)	0.30	(1.74)
Diluted	(0.05)	(2.05)	0.30	(1.74)

Consolidated Statements of Cash Flows

The change in accounting policy did not have an impact on the Company’s cash flows.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Marty Proctor
Chair

Anna Alderson
Independent Director

John Chambers
Independent Director

Mark Rollins
Independent Director

Anthony Marino
President and Chief Executive Officer and Director

OFFICERS

Anthony Marino
President and Chief Executive Officer and Director

Michael Kaluza
Chief Operating Officer

Bradley Bennett
Chief Financial Officer

David Burghardt
Senior Vice President, Canada Business Unit

Jonathan Balkwill
Vice President, Business Development

Jennifer Russel-Houston
Vice President, Geoscience

Travis Stephenson
Vice President, Engineering

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

ATB Financial
Calgary, Alberta

LEGAL COUNSEL

Lawson Lundell LLP
Calgary, Alberta

Torys LLP
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Odyssey Trust Company
Calgary, Alberta

STOCK TRADING

TSX Venture Exchange
Trading Symbol: **TNZ**

Tenaz Energy