# 2022 THIRD QUARTER REPORT

Tenaz Energy

## FINANCIAL AND OPERATIONAL SUMMARY

| ($000 CAD, except per share and per boe amounts) | Three months ended<br>**Sep 30, 2022** | <br>Jun 30, 2022 | <br>Sep 30, 2021 | Nine months ended<br>**Sep 30, 2022** | <br>Sep 30, 2021 |
|---|---|---|---|---|---|
| **FINANCIAL** | | | | | |
| Petroleum and natural gas sales | **7,690** | 9,344 | 4,717 | **23,235** | 12,377 |
| Cash flow from operating activities | **1,444** | 1,936 | 1,982 | **4,538** | 3,572 |
| Funds flow from operations(1) | **2,280** | 2,104 | 1,349 | **5,376** | 3,283 |
| Per share – basic(1)(3) | **0.08** | 0.07 | 0.12 | **0.19** | 0.30 |
| Per share – diluted(1)(3) | **0.08** | 0.07 | 0.12 | **0.18** | 0.30 |
| Net income(2) | **224** | 769 | 10,105 | **4,490** | 8,597 |
| Per share – basic(2)(3) | **0.01** | 0.03 | 0.93 | **0.16** | 0.79 |
| Per share – diluted(2)(3) | **0.01** | 0.03 | 0.93 | **0.15** | 0.79 |
| Capital expenditures(1) | **7,882** | 3,512 | 2,614 | **12,113** | 4,551 |
| Dispositions(1) | **-** | - | - | **-** | (1,750) |
| Adjusted working capital (net debt)(1) | **13,887** | 19,431 | (3,462) | **13,887** | (3,462) |
| Common Shares outstanding (000) | | | | | |
| End of period – basic(3) | **28,405** | 28,548 | 10,892 | **28,405** | 10,892 |
| Weighted average for the period – basic(3) | **28,520** | 28,481 | 10,892 | **28,486** | 10,892 |
| Weighted average for the period – diluted(3) | **28,690** | 29,241 | 10,892 | **29,127** | 10,892 |
| **OPERATING** | | | | | |
| Average daily production | | | | | |
| Heavy crude oil (bbls/d) | **687** | 636 | 496 | **613** | 507 |
| NGLs (bbls/d) | **47** | 61 | 72 | **56** | 61 |
| Natural gas (Mcf/d) | **2,929** | 2,524 | 2,861 | **2,679** | 2,588 |
| Total (boe/d)(4) | **1,222** | 1,117 | 1,045 | **1,116** | 999 |
| ($/boe)(4) | | | | | |
| Petroleum and natural gas sales | **68.39** | 91.90 | 49.04 | **76.25** | 45.38 |
| Royalties | **(15.23)** | (17.11) | (5.53) | **(14.41)** | (5.07) |
| Operating expenses | **(17.04)** | (14.47) | (14.44) | **(17.37)** | (13.88) |
| Transportation expenses | **(1.75)** | (3.12) | (1.75) | **(2.16)** | (2.05) |
| Operating netback(1) | **34.37** | 57.20 | 27.32 | **42.31** | 24.38 |
| **BENCHMARK COMMODITY PRICES** | | | | | |
| WTI crude oil (US$/bbl) | **91.64** | 108.41 | 70.56 | **98.09** | 65.56 |
| WCS (CAD$/bbl) | **93.72** | 122.08 | 71.88 | **105.58** | 65.40 |
| AECO daily spot (CAD$/Mcf) | **4.45** | 7.26 | 3.58 | **5.49** | 3.26 |

(1) This is a non-GAAP and other financial measure. Refer to “Non-GAAP and Other Financial Measures” included in the “Advisories” section of the Management’s Discussion & Analysis for the three and nine months ended September 30, 2022 (“MD&A”).
(2) Prior period amounts have been restated. Refer to the “Change in Accounting Policies” section included in the MD&A.
(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.
(4) 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 the MD&A.

## HIGHLIGHTS

- During the third quarter, we completed our two well (1.75 net) summer drilling program and brought both wells on production. The shorter of the two wells had a completed length of 1.25 miles and is the best performing well drilled in the field to-date based on peak 60-day production rate. The second well has a two-mile length and is still cleaning up due to a higher volume of frac fluid to recover.
- Late in Q3 2022, we commenced an expansion of our drilling program after securing a rig suitable for drilling additional two-mile long wells. As a result, we are increasing our 2022 capital program to a range of between $16 - $17 million. These new wells are expected to come on production late in Q4 2022. The acceleration of these two wells avoids winter completions, and helps advance the Leduc-Woodbend field towards more appropriate scale.
- Production volumes averaged 1,222 boe/d(1) in the quarter, an increase of 9% compared to Q2 2022, driven primarily by initial production from the two wells in the summer program. These wells began producing oil late in Q3 2022.
- Funds flow from operations ("FFO")(2) for the quarter was $2.3 million, up 8% from Q2 2022. Higher FFO primarily resulted from higher production, partially offset by lower commodity prices and higher electricity and chemical costs.
- Net income for the quarter was $0.2 million ($0.01 per share), marking the third straight quarter of positive net income. In Q3 2022, the impact of higher production was partially offset by lower commodity prices and cost inflation on a portion of our operating expenditures. Year-to-date net income was $4.5 million ($0.16 per share) .
- Total capital expenditures for the third quarter were $7.9 million, bringing year-to-date capital investment to $12.1 million, reflecting the drilling, completion and tie-in of the summer program plus the additional drilling of 2 (1.75 net) wells in the accelerated fall program.
- The Board of Tenaz has approved a capital budget of $16 - $18 million for 2023. The budget provides for a four-well summer drilling campaign and facility expansion to support field extension in the southern portion of the Leduc-Woodbend field. The drilling portion of the capital program is planned for late Q2 2023, after spring break-up, with contributions from the new wells expected in Q3 2023. Production guidance for 2023 is 1450 - 1550 boe/d, reflecting growth of approximately 20% from 2022.
- During Q3 2022, we terminated our proposed combination with SDX Energy PLC. We were unable to complete the combination through a Scheme of Arrangement, and the potential to acquire a majority of SDX shares via a Takeover Offer no longer met our value and strategic criteria.
- We initiated our Normal Course Issuer Bid ("NCIB") program during Q3 2022, retiring 142,700 shares in the quarter.

[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 MD&A.

[2] This is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section of the accompanying MD&A.

## PRESIDENT'S MESSAGE

Tenaz is now one year into our global strategy following the recapitalization of Altura Energy. Our vision is to build a leading intermediate-size E&P by targeting acquisition of high-quality assets in global markets. While we have not closed an acquisition yet, we have maintained a high level of activity in the M&A market. At present, we have multiple acquisition offers in place and fully expect to complete one or more value-adding transactions in a reasonable time frame. Our focus is on making certain that all transactions redound to the benefit of our existing shareholders and advance our long-term global strategy.

The terminated SDX combination during the third quarter is an example of sticking to our discipline. The originally contemplated combination through a Scheme of Arrangement met our criteria for a meaningful and value-adding transaction. However, when the Scheme of Arrangement did not generate the required super-majority of voted equity by SDX shareholders, we elected to terminate rather than revert to a Takeover Offer under which complete control of the merged entity was unlikely. Tenaz will not chase transactions which do not advance our strategic objectives or which offer diminished economics versus our planned business case for deploying shareholder capital.

Throughout 2022, we progressed and expanded our acquisition pipeline. Commodity prices have continued to be both volatile and strong as compared to the industry's experience over the past decade. Nonetheless, we now sense greater realism on the part of asset sellers as consumers and policymakers have fought back against post-pandemic and war-driven inflation. Whereas a number of potential sellers removed producing assets from the market earlier in 2022, potential counterparties in our current transaction pipeline appear more resolute in achieving their strategic divestment goals. Furthermore, the wide bid-ask gulf that existed earlier this year also appears to have narrowed as most sellers no longer wait for a continued upward spiral in energy commodities, particularly in European gas. We believe the current acquisition market offers opportunities for higher returns as well, because our expected transaction prices have not typically kept up with today's strong commodity prices.

We continued to advance a number of acquisition prospects during the third quarter, testing them under consistent criteria to ensure shareholder value creation when employing acquisition capital. The assets in our current acquisition pipeline are primarily located within our highest-priority geographic region of Europe-MENA, with a significantly lesser representation in the Americas. We believe that our current pipeline will result in consummated transactions. We are sometimes asked to specify when such transactions will occur. Our committed policy is to not disclose prospective transactions until they reach the point of an executed definitive agreement between Tenaz and the seller, absent extraordinary circumstances that would otherwise require earlier disclosure.

In the meantime, we believe our strong financial condition, as reflected in our positive working capital balance of approximately $14 million as at the end of the third quarter, enhances the flexibility of our model. In addition, we have put in place a $10 million revolving credit facility to further enhance our liquidity position.

We initiated our share buyback program in August 2022 as an efficient use of capital to retire our shares that we assess to be undervalued in the current market. The normal course issuer bid is consistent with our overall corporate strategy, as it is intended to invest in our own stock at a time of lower market valuation, smooth equity price volatility, and contribute to a constructive environment in which future acquisitions may be primarily funded with equity issuance.

### 2022 Operations and Capital Update

In addition to pursuing our international acquire-and-exploit strategy, Tenaz is developing a high quality semi-conventional project in the Leduc-Woodbend area of Alberta, Canada. This project targets the Rex zone within the Mannville formation over a contiguous land base with Tenaz-owned infrastructure. This oil-weighted play offers significant advantages, including robust drilling economics, a large operated land position, largely 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.

In the year since the recapitalization, we have modified several aspects of design and execution of this project. In particular, we have focused on an improved geologic description of the Rex reservoir and proppant schedule changes, which have resulted in increased in-zone placement of the horizontal laterals and nearly 100% frac placement. Recent drilling results indicate that these modifications are improving production performance.

Production volumes averaged 1,222 boe/d[1] in the quarter, an increase of 9% compared to Q2 2022, driven primarily by initial production from the two (1.75 net) summer-program wells drilled in the quarter. These wells began producing oil and gas late in Q3 2022 with the shorter of the two wells (1.25 mile length) cleaning up quickly to first oil production. This well averaged approximately 400 boe/d during its first two months of post-cleanup production, making it the strongest well yet drilled in Leduc-Woodbend based on IP 60. The longer of the two summer wells (2.0 mile length) utilized significantly more frac fluid, leading to an increased clean-up period. This well has only recently begun to contribute to oil production, with rates continuing to increase.

Due to the strong rates of return and rapid payouts from the Rex program, we communicated in our Q2 2022 report that we were considering drilling two additional wells during 2022, depending on our ability to secure suitable drilling and completion services. Our Board has approved bringing forward two additional wells into 2022. In addition to the two additional wells, we plan to construct new pipelines to tie-in these wells and to enhance our water disposal capacity in the area of the additional wells. Drilling this fall avoids the costs and frac fluid quality difficulties previously experienced in winter completions, and more generally, builds greater production scale to reduce unit costs. From a standpoint of return on shareholder capital and long-term value creation, these investments significantly exceed our cost of capital, enhance free cash flow, and preserve mineral acreage while unlocking undeveloped reserve value.

These two (1.75 net) additional wells were drilled in Q3 2022, and will be fraced and tied-in during Q4 2022. The wells will be in their clean-up periods during the fourth quarter, and are therefore not expected to meaningfully contribute to 2022 oil or gas production. Our revised capital guidance range for 2022 is now $16 to $17 million for 2022, reflecting a total drill, complete, tie-in and equip program for 4 (3.5 net) wells, along with facility and pipeline expansions.

**2023 Budget and Production Guidance**

Our Board of Directors has approved a capital budget of $16 - $18 million for 2023 which envisions a four (3.35 net) well drilling program as we continue to develop the Leduc-Woodbend field. Our annual production guidance for 2023 is 1450 - 1550 boe/d, approximately 20% higher than 2022. The 2023 production guidance reflects more appropriate operating scale at Leduc-Woodbend, and sets the stage for robust free cash flow in future years. The 2023 capital program, consistent with our preferred seasonal approach, will commence around mid-year, with production contributions from the new wells expected during the last third of 2023. This program remains flexible, and our team is prepared for several options to scale the program up or down depending on the commodity environment or to deploy cash generated into other ventures.

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 worthwhile component of our overall growth and free cash flow-oriented strategy.

We believe we have made substantial progress over the past year in both improving our existing Canadian development project and advancing a robust pipeline of potential international acquisitions. We appreciate the support our shareholders have provided, starting with last year's recapitalization, through the proposed SDX combination, and now as we prepare for other international transactions. We are confident in our strategy and ability to execute it, and intend to deliver for our shareholders.

/s/ Anthony Marino

President and Chief Executive Officer
November 10, 2022

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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 MD&A.

# 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. or "**Altura**") (the "**Company**" or "**Tenaz**") is dated November 10, 2022 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2022 and 2021, the audited consolidated financial statements and related notes for the year ended December 31, 2021, as well as the Company's Annual Information Form ("**AIF**") that is found on SEDAR at www.sedar.com. The Company's unaudited interim condensed consolidated 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 or ("**GAAP**"), specifically International Accounting Standard 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("**IASB**").

This MD&A includes references to certain financial and performance measures which do not have standardized meanings prescribed by IFRS ("**Non-GAAP**"). 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 thousands of Canadian dollars 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.

*Share Consolidation*

On December 23, 2021, the Company completed a 10-to-1 share consolidation. The number of common shares of the Company ("**Common Shares**"), warrants and stock options outstanding have been adjusted on a retroactive basis and have been presented in this MD&A on a post-consolidation basis.

### DESCRIPTION OF BUSINESS

Tenaz 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. 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 Toronto Stock Exchange under the symbol "TNZ".

### TSX GRADUATION

On May 12, 2022, following approval from the Toronto Stock Exchange ("**TSX**"), Tenaz's Common Shares were listed on the TSX and commenced trading under the symbol "TNZ" at which time trading on the TSX Venture Exchange ceased (the "**TSX Graduation**").

Tenaz views the TSX Graduation as a natural step in executing the corporate strategy outlined at the time of the reorganization in 2021.

## TERMINATION OF SDX ENERGY PLC ACQUISITION

On July 29, 2022, the Company terminated its previously proposed acquisition of SDX Energy Plc ("**SDX**") (the "**SDX Transaction**"). The completion of the SDX Transaction required Tenaz and SDX shareholder and regulatory approvals. The results of the SDX shareholder vote held on July 29, 2022 did not meet the required threshold of 75% of voted shares in favour of the transaction. Based on the results of the SDX vote, Tenaz decided not to hold its Special Meeting of Shareholders on July 29, 2022 and terminated the proposed acquisition of SDX.

On August 4, 2022, following the termination of the SDX acquisition, the £25.0 million held in escrow as a deposit for a cash alternative to the SDX Transaction was refunded to Tenaz's bank account, the outstanding balances on the Credit Facilities were repaid, and the foreign exchange swaps were settled.

For the three and nine months ended September 30, 2022, the Company recognized $0.3 million and $1.8 million, respectively, of transaction costs in net income related to the SDX Transaction.

## CAPITAL AND PRODUCTION GUIDANCE

| | November 10, 2022 Updated Guidance | August 5, 2022 Guidance |
|---|---|---|
| 2022 average production volumes (boe/d) | 1,200 to 1,300 | 1,200 to 1,300 |
| Capital expenditures(1) ($000) | 16,000 to 17,000 | 8,000 |
| **Wells:** | | |
| Drilled | 4 (3.50 net) | 2 (1.75 net) |
| Completed | 4 (3.50 net) | 2 (1.75 net) |

| | 2023 Guidance |
|---|---|
| 2023 average production volumes (boe/d) | 1,450 to 1,550 |
| Capital expenditures(1) ($000) | 16,000 to 18,000 |
| **Wells:** | |
| Drilled | 4 (3.35 net) |
| Completed | 4 (3.35 net) |

We have announced an increase in 2022 capital guidance to reflect the addition of two (1.75 net) Rex wells and incremental facilities and pipeline activities. Our revised capital guidance range for 2022 is now $16.0 to $17.0 million for 2022, reflecting a total drill, complete, tie-in and equip program for 4 (3.5 net) wells, along with facility and pipeline expansions.

Guidance for 2023 has been approved by the Company's Board of Directors and includes capital investment of $16 to $18 million to execute a four (3.35 net) well drilling program along with facility enhancements. Our production guidance for 2023 is 1450 - 1550 boe/d, approximately 20% higher than 2022.

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

## RESULTS OF OPERATIONS

### Operational and Financial Review

| | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| **Production** | | | | | |
| Heavy crude oil (bbls/d) | **687** | 636 | 496 | **613** | 507 |
| Natural gas liquids ("NGLs") (bbls/d) | **47** | 61 | 72 | **56** | 61 |
| Natural gas (Mcf/d) | **2,929** | 2,524 | 2,861 | **2,679** | 2,588 |
| Total (boe/d) | **1,222** | 1,117 | 1,045 | **1,116** | 999 |
| Net income(1) | **224** | 769 | 10,105 | **4,490** | 8,597 |
| Per share - basic(1)(3) | **0.01** | 0.03 | 0.93 | **0.16** | 0.79 |
| Per share – diluted(1)(3) | **0.01** | 0.03 | 0.93 | **0.15** | 0.79 |
| Cash flow from operating activities | **1,444** | 1,936 | 1,982 | **4,538** | 3,572 |
| Funds flow from operations(2) | **2,280** | 2,104 | 1,349 | **5,376** | 3,283 |
| Per basic share(2)(3) | **0.08** | 0.07 | 0.12 | **0.19** | 0.30 |
| Per basic diluted share(2)(3) | **0.08** | 0.07 | 0.12 | **0.18** | 0.30 |
| Adjusted working capital (net debt)(2) | **13,887** | 19,431 | (3,462) | **13,887** | (3,462) |
| **Activity** | | | | | |
| Capital expenditures ($000)(2) | **7,882** | 3,512 | 2,614 | **12,113** | 4,551 |
| Dispositions ($000)(2) | **-** | - | - | | (1,750) |
| Wells drilled - Gross/(Net) | **2 (1.75)** | 2 (1.75) | 1 (0.88) | **4 (3.50)** | 1 (0.88) |
| Wells completed - Gross/(Net) | **2 (1.75)** | - | 1 (0.88) | **2 (1.75)** | 2 (1.75) |

(1) Prior period amounts have been restated. Refer to the "Change in Accounting Policies" section in the MD&A.
(2) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(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.

### *Production*

Tenaz's production in Q3 2022 increased 9% and 17% to 1,222 boe/d compared to the prior quarter and Q3 2021, respectively. The change in quarter-over-quarter production reflected contributions from two (1.75 net) Rex wells brought online in the third quarter. The increased production from the new wells along with reduced downtime more than offset natural decline of the base wells.

Production in Q3 2022 and the first nine months of 2022 was higher than the same periods in the prior year largely as a result of increased production from new wells brought on production, but partially offset by natural declines and higher than expected downtime during the first half of the year. Production is expected to continue to increase in Q4 2022 as new wells brought on in Q3 2022 contribute for a full quarter.

### *Net Income*

The Company's Q3 2022 net income was $0.2 million compared to $10.1 million in Q3 2021. The decrease is attributable to the absence of a $10.0 million impairment reversal in Q3 2021. The impairment reversal was recorded on the strengthening of commodity prices in the second half of 2021.

Comparing the nine months ended September 30, 2022 ($4.5 million) to the same period in the prior year ($8.6 million), the difference is largely due to a differential in the recognized impairment reversal of $4.2 million in 2022 compared to $9.7 million in the same period for 2021. Overall, current period earnings reflect increased sales revenue from higher commodity prices and production volumes, partially offset by higher royalties and other expenses. Higher expenses resulted from increased activity levels, inflation and the execution of the Company's acquisition strategy.

*Funds flow from operations*

In Q3 2022, funds flow from operations of $2.3 million increased 69% over Q3 2021 and 8% compared to Q2 2022. The increase in funds flow from Q3 2021 primarily reflects increased sales revenue from higher commodity prices and production volumes, partially offset by higher royalties and costs associated with Tenaz's acquisition strategy, including both ongoing general and administrative expenses and transaction costs from the SDX Transaction. The change in funds flow from operations from Q2 2022 to Q3 2022 reflects higher production, partially offset by a reduction in energy prices.

**Benchmark Commodity Prices**

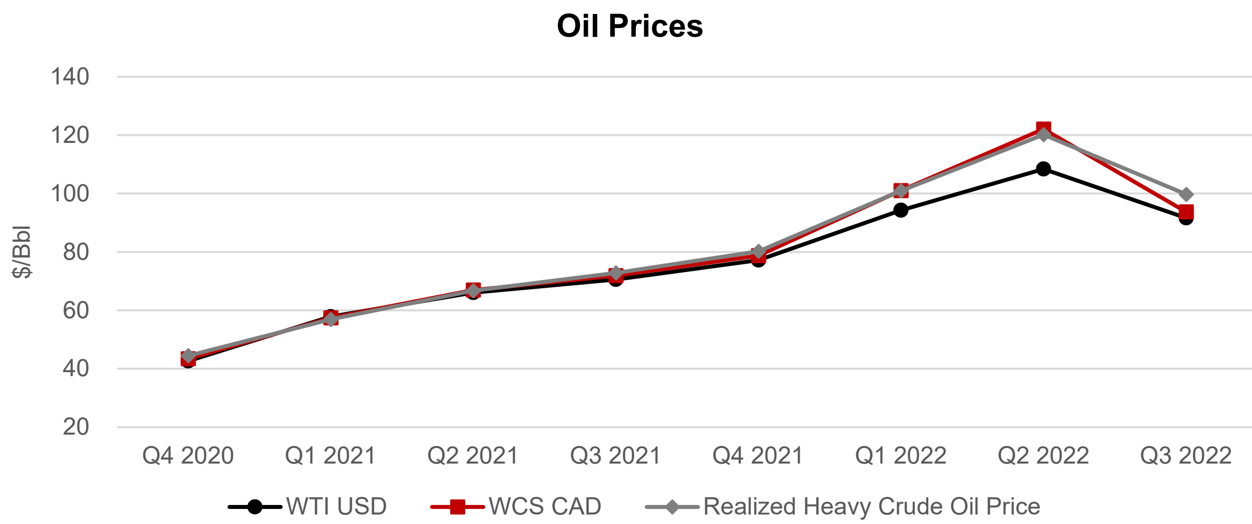
| | Q3 2022 | Q2 2022 | Q3 2021 | YTD 2022 | YTD 2021 |
|---|---|---|---|---|---|
| **Average Benchmark Prices** | | | | | |
| WTI crude oil (US$/bbl)(1) | **91.64** | 108.41 | 70.56 | **98.09** | 64.82 |
| WCS differential (US$/bbl)(2) | **(19.79)** | (12.77) | (13.58) | **(15.71)** | (12.51) |
| US$/CAD$ exchange rate | **0.766** | 0.783 | 0.794 | **0.780** | 0.799 |
| WCS (CAD$/bbl) | **93.72** | 122.08 | 71.88 | **105.58** | 65.40 |
| AECO daily spot (CAD$/Mcf) | **4.45** | 7.26 | 3.58 | **5.49** | 3.26 |
| **Average Realized Prices**(3) | | | | | |
| Heavy crude oil ($/bbl) | **99.73** | 120.21 | 72.81 | **107.14** | 65.56 |
| Natural gas liquids ($/bbl) | **71.12** | 94.99 | 56.23 | **75.24** | 48.32 |
| Natural gas ($/Mcf) | **4.00** | 8.11 | 3.87 | **5.66** | 3.54 |
| Petroleum and natural gas sales ($/boe) | **68.39** | 91.90 | 49.04 | **76.25** | 45.38 |

(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.

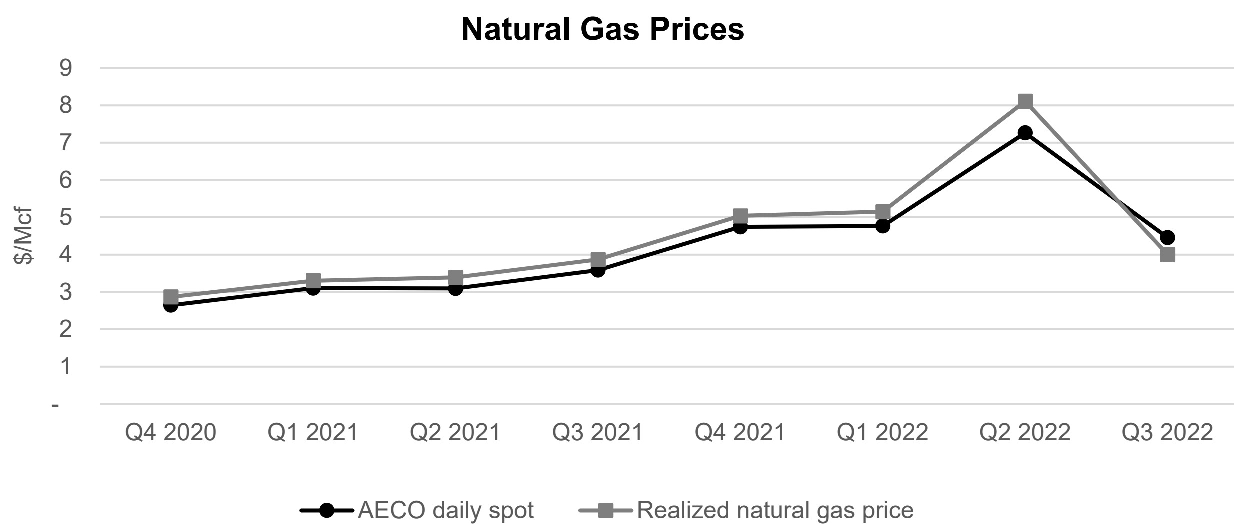
Tenaz currently sells its crude oil on a monthly index basis and natural gas production at the daily index. The average realized price the Company receives for its crude oil and natural gas production depends on several factors, including the average benchmark prices for crude oil and natural gas, the US-to-Canadian dollar exchange rate as well as 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 West Texas Intermediate (WTI) oil price and the Western Canadian Select (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, inventory levels in North America and lack of pipeline infrastructure or takeaway capacity connecting key consuming oil markets.

In Q3 2022, oil and gas prices retreated from the Q2 2022 highs as global recessionary fears, Strategic Petroleum Reserve (SPR) releases in the United States, and Covid-19 lockdowns in China more than offset tight global supply and demand balances. In Canada, the differential between WTI and WCS oil prices increased in this period, impacted by a combination of higher natural gas prices for refiners, discounted Russian heavy barrels, and US refinery outages, as well as the US SPR release which consisted of mostly heavier barrels. The decrease in WTI and a wider WCS differential in relation to the underlying WTI price resulted in WCS decreasing by 23% from Q2 2022 to $93.72 per barrel in Q3 2022. Crude sold by Tenaz closely tracks WCS, but the exact price of crude received is a function of the sales point to which the product is delivered.




In Q3 2022, Tenaz's realized natural gas price decreased by 51% to $4.00 per Mcf from Q2 2022 while the AECO daily spot price decreased 39% to $4.45 per Mcf from Q2 2022.



## Financial Review

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| Heavy crude oil | **6,304** | 6,953 | 3,325 | **17,938** | 9,071 |
| Natural gas liquids | **307** | 527 | 374 | **1,160** | 803 |
| Natural gas | **1,079** | 1,864 | 1,018 | **4,137** | 2,503 |
| Petroleum and natural gas sales | **7,690** | 9,344 | 4,717 | **23,235** | 12,377 |
| Royalties | **(1,712)** | (1,740) | (532) | **(4,392)** | (1,382) |
| Operating | **(1,917)** | (1,471) | (1,391) | **(5,293)** | (3,787) |
| Transportation | **(197)** | (318) | (168) | **(657)** | (559) |
| General and administrative expenses | **(1,183)** | (1,410) | (413) | **(3,839)** | (1,288) |
| Transaction costs | **(295)** | (1,457) | - | **(1,752)** | - |
| Interest and financing, net of income | **(103)** | 9 | (66) | **(99)** | (265) |
| Realized foreign exchange loss | **(3)** | - | - | **(3)** | - |
| Realized loss on derivatives | **-** | (853) | (798) | **(1,824)** | (1,813) |
| Funds flow from operations(1) | **2,280** | 2,104 | 1,349 | **5,376** | 3,283 |
| Changes in non-cash operating working capital | **(836)** | (168) | 633 | **(838)** | 289 |
| Cash flow from operating activities | **1,444** | 1,936 | 1,982 | **4,538** | 3,572 |

(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 Q3 2022 decreased 18% to $7.7 million compared to $9.3 million in Q2 2022 and increased 63% compared to $4.7 million in Q3 2021. The quarter-over-quarter decrease resulted from lower commodity prices offset by an increase in production. Petroleum and natural gas sales in the first nine months of 2022 increased 88% to $23.2 million compared to $12.4 million in the same period in 2021. The increases in 2022 compared to the prior year periods resulted primarily from increased realized commodity prices and higher production.

### *Royalties*

In Q3 2022, royalty expense as a percentage of sales was 22.3% ($15.23 per boe) compared to 11.3% of sales ($5.53 per boe) in Q3 2021 and 18.6% of sales ($17.11 per boe) in Q2 2022. In the nine months ended September 30, 2022, royalty expense increased to 18.9% of sales ($14.41 per boe) compared to 11.2% of sales ($5.07 per boe) in the same period of 2021. These increases are reflective of higher average royalty rates on Crown lands as Crown royalty rates vary depending on the product reference price, well production rates and the vintage of wells coming off royalty holidays. Partially offsetting the higher commodity prices were a number of recently drilled wells that benefit from the Crown's flat royalty rate of 5% for early production under the Drilling and Completion Cost Allowance program.

### *Operating*

Operating expenses increased in Q3 2022 to $1.9 million or $17.04 per boe compared to $1.5 million ($14.47 per boe) in Q2 2022 and $1.4 million ($14.44 per boe) in Q3 2021. Higher current quarter operating costs are primarily attributable to increases in electricity and chemical costs in addition to increases in carbon taxes incurred for third party gas processing. The Alberta power pool price significantly increased to an average of $221.40/MWh in Q3 2022 compared to $100.35/MWh in Q2 2022.

Operating expenses increased to $17.37 per boe in the nine months ended September 30, 2022 compared to $13.88 per boe in the first nine months of 2021. The year-over-year increase in unit operating expense was driven by general inflation on key input costs including large increases in electricity and other input costs along with higher-than-expected well servicing activity.

### *Transportation*

Transportation expenses decreased in Q3 2022 to $0.2 million or $1.75 per boe compared to $0.3 million or $3.12 per boe in Q2 2022 and was consistent with $0.2 million or $1.75 per boe in the same period in 2021. The increase in Q2 2022 costs related to trucking of crude to various sales points for optimal blending of the crude produced in the quarter. In the first nine months of 2022, transportation costs of $2.16 per boe were largely consistent on a per unit basis with costs in the same period in 2021.

### *Operating Netback Summary*

| ($/boe) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Petroleum and natural gas sales | **68.39** | 91.90 | 49.04 | **76.25** | 45.38 |
| Royalties | **(15.23)** | (17.11) | (5.53) | **(14.41)** | (5.07) |
| Operating | **(17.04)** | (14.47) | (14.44) | **(17.37)** | (13.88) |
| Transportation | **(1.75)** | (3.12) | (1.75) | **(2.16)** | (2.05) |
| Operating netback[(1)] | **34.37** | 57.20 | 27.32 | **42.31** | 24.38 |

(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 Q3 2022 and YTD 2022, operating netback increased compared to the prior periods in 2021 due to the increase in commodity prices, partially offset by higher royalty rates and higher unit operating costs.

### *General and Administrative ("G&A") Expenses*

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Gross G&A | **1,385** | 1,559 | 563 | **4,453** | 1,700 |
| Capitalized G&A and overhead recoveries | **(203)** | (149) | (150) | **(615)** | (412) |
| G&A expenses | **1,183** | 1,410 | 413 | **3,839** | 1,288 |

G&A expenses increased to $1.2 million in Q3 2022 compared to $0.4 million in Q3 2021 and decreased from $1.4 million in Q2 2022. For the nine months ended September 30, 2022, G&A expenses increased to $3.8 million from $1.3 million in the same period of 2021. The increase in 2022 is due to additional staff following the reorganization for the Company's new strategy of evaluating and acquiring oil and gas assets in global markets, and increased professional services, specifically regarding the TSX Graduation and the pursuit of international opportunities.

The G&A decrease in Q3 2022 as compared to Q2 2022 is primarily driven by the TSX graduation fees incurred in Q2 2022 and higher capitalized G&A as a result of higher capital expenditures in Q3 2022.

### *Transaction Costs*

For the three and nine months ended September 30, 2022, the Company recognized $0.3 million and $1.8 million of transaction costs, respectively, in net income (2021 - $nil). These costs were incurred for professional services and other transaction expenses directly related to the SDX transaction prior to its termination.

Business development costs associated with pursuing the Company's new strategy are included in G&A expenses.

### *Interest and Financing, net of Income*

For the three and nine months ended September 30, 2022, Tenaz recognized net interest and financing charges pertaining to Tenaz's bank facility which was used to fund the cash deposit for the terminated SDX acquisition. The 2021 periods reflected interest on the bank facility that existed prior to the recapitalization which was repaid in October 2021.

### *Realized loss on derivative 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, complying with its banking covenant and reducing foreign currency risk. Prior to the reorganization in 2021, Altura had drawn on its credit facility and under the terms of the lending agreement was required to hedge a minimum percentage of its production for a rolling three-quarter period. Tenaz is not required to continue hedging on its credit facility while the Company's credit facility is undrawn. Following the reorganization in 2021, the Company had paid off its bank indebtedness.

The Company's realized losses on derivative instruments are detailed in the following table:

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Commodity contracts | | | | | |
| Crude oil contracts | **-** | (606) | (123) | **(1,423)** | (179) |
| Natural gas contracts | **-** | (247) | (675) | **(401)** | (1,634) |
| Realized loss on derivative instruments | **-** | (853) | (798) | **(1,824)** | (1,813) |

Tenaz has recognized realized losses on commodity contracts in 2022 and 2021 due to the increase in commodity prices compared to the prices at the time the contracts were entered into. At September 30, 2022, Tenaz held no crude oil and natural gas contracts as these contracts expired on May 31, 2022.

## Net Income and Funds Flow from Operations

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

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Funds flow from operations[1] | **2,280** | 2,104 | 1,349 | **5,376** | 3,283 |
| Unrealized foreign exchange loss (gain) | **329** | (329) | - | **-** | - |
| Unrealized gain (loss) on derivative instruments | **(295)** | 918 | 35 | **600** | (1,426) |
| Share-based compensation expense | **(339)** | (330) | (63) | **(981)** | (240) |
| Depletion, depreciation and amortization | **(1,702)** | (1,545) | (1,187) | **(4,596)** | (3,360) |
| Impairment reversal | **-** | - | 10,021 | **4,240** | 9,683 |
| Accretion of decommissioning liability | **(49)** | (49) | (50) | **(149)** | (147) |
| Gain on dispositions | **-** | - | - | **-** | 804 |
| Deferred tax recovery | **-** | - | - | **-** | - |
| Net income | **224** | 769 | 10,105 | **4,490** | 8,597 |

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

### *Share-based compensation*

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Share-based compensation: | | | | | |
| Options | **341** | 344 | 83 | **1,022** | 285 |
| Performance share units ("PSUs") | **16** | - | - | **16** | - |
| Total share-based compensation | **357** | 344 | 83 | **1,038** | 285 |
| Capitalized share-based compensation | **(18)** | (14) | (20) | **(57)** | (45) |
| Share-based compensation expense | **339** | 330 | 63 | **981** | 240 |

Tenaz's share-based compensation in 2022 is related to the granting of stock options under the Company's Stock Option Plan. The Company estimates the fair value of the incentive award based on a Black Scholes valuation model for the determination of non-cash related share-based compensation, and the expense is recorded over the expected life of the award. Share-based compensation expense increased to $0.3 million in Q3 2022, compared to $0.1 million in Q3 2021 and was consistent with $0.3 million in Q2 2022. For the nine months ended September 30, 2022, share-based compensation was $1.0 million, compared to $0.2 million in the same time period of 2021. The increases in 2022 are due to increased awards issued to the employees and staff following the recapitalization and change in strategy.

In Q2 2022, the Company's shareholders approved a new omnibus security-based compensation arrangement referred to as the Tenaz Incentive Plan (the "**TIP**") pursuant to which the Company is able to issue share-based long-term incentives to directors, officers, employees and independent contractors of the Company and/or its affiliates. The types of awards available under the TIP include options, restricted share units ("RSUs"), performance share units ("PSUs"), deferred share units ("DSUs") and dividend-equivalent rights (collectively, "**Awards**"). Under the TIP, the maximum number of Common Shares issuable from treasury pursuant to Awards shall not exceed 10% of the total outstanding Common Shares from time to time (on a non-diluted basis) less the number of Common Shares issuable pursuant to all other security-based compensation arrangements of the Company (being the Stock Option Plan).

On August 31, 2022, Tenaz issued 179,500 PSUs to employees of the Company with a grant date fair value of $1.98 per award. The PSUs are an equity-settled long-term incentive and vest evenly over a period of three service years. The PSUs are subject to a performance factor on the annual vesting date which can be in the range of 0 to 2. This performance factor will be multiplied by the number of PSUs each employee holds at the time of vesting. The performance factor is determined by the Board of Directors based on the Company's performance during the vesting period. Share-based compensation expense for the PSUs is calculated based on the $1.98 grant date fair value and the number of awards outstanding multiplied by the estimated performance factor (September 30, 2022 – 1.0) that will be realized upon vesting, net of an estimated forfeiture rate of 10%.

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

For the three and nine month period ended September 30, 2022, DD&A expense was higher than the same periods of 2021 due to higher production volumes and higher DD&A rates.

On a per unit basis, DD&A was $15.14 per boe in Q3 2022, compared to $12.35 per boe in Q3 2021 and $15.20 per boe in Q2 2022. For the nine months ended September 30, 2022 the DD&A rate was $15.08 per boe compared to $12.32 per boe in the same period of 2021. The increased per unit depletion in 2022 is mainly due to the impairment reversals recorded in Q2 2022 and Q3 2021, as well as estimated future development cost increases, which increased the net asset value subject to depletion relative to the same periods in 2021.

### *Impairment reversal*

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

*March 31, 2022*

At March 31, 2022, the significant increases in forecast benchmark commodity prices since the last impairment test at December 31, 2021, were considered indicators of impairment reversal. As a result, a test for impairment reversal was conducted on Tenaz's D&P assets in Tenaz's only cash-generating unit ("**CGU**"), Leduc-Woodbend. The Company recognized an impairment reversal of $4.2 million, net of depletion, in the three months ended March 31, 2022 (2021 - $nil) due to the estimated recoverable amount of $51.1 million, using value in use, exceeding the carrying amount of these assets. Subsequent to the impairment reversal, no CGUs had any prior impairments that can be reversed in future periods.

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, updated using forecast oil and gas commodity prices at April 1, 2022, revised forecasted future development costs and operating expenses assumptions and removed production for the first three months of 2022, 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, 2022 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%.

***Accretion of decommissioning liability***

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. Accretion expense was consistent for the three and nine months ended September 30, 2022 and 2021.

***Unrealized and Realized foreign exchange loss***

In Q3 2022, the Company reversed the $0.3 million unrealized foreign exchange loss as the £25.0 million held in escrow was returned to Tenaz upon termination of the SDX transaction for a minor realized foreign exchange loss. The corresponding foreign currency swaps related to the funds held in escrow were also settled in Q3 2022.

***Unrealized gain (loss) on derivative instruments***

The Company's unrealized gain (loss) on derivative instruments is detailed in the following table:

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Commodity contracts | **-** | 623 | 35 | **600** | (1,426) |
| Foreign currency swaps | **(295)** | 295 | - | **-** | - |
| Unrealized gain (loss) on derivative instruments | **(295)** | 918 | 35 | **600** | (1,426) |

At September 30, 2022, Tenaz had no active commodity contract hedging arrangements with the final contracts expiring at the end of May 2022. At September 30, 2022, the liabilities associated with prior commodity contracts had been realized in normal course. At December 31, 2021, Tenaz had a liability of $0.6 million recorded on the balance sheet.

In September 2022, Tenaz entered into foreign currency swaps in order to mitigate the foreign exchange exposure of the £25.0 million transferred into escrow to provide the Cash Alternative for the SDX Transaction. The $0.3 million unrealized loss reversed and was settled in Q3 2022.

***Deferred Taxes***

Tenaz has not recognized a deferred tax asset at September 30, 2022, December 31, 2021 and September 30, 2021 for its estimated tax pools as management did not find it probable that the benefit will be realized. As such, the Company did not recognize a deferred tax expense or recovery in the three and nine months ended September 30, 2022 and 2021.

Estimated tax pools at September 30, 2022 and December 31, 2021 are as follows:

| ($000) | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Canadian development expenses | **16,917** | 12,832 |
| Canadian exploration expenses | **3,127** | 3,088 |
| Canadian oil and gas property expenses | **177** | - |
| Non-capital losses | **27,519** | 24,463 |
| Undepreciated capital cost | **7,827** | 8,170 |
| Share issue costs | **1,176** | 1,447 |
| | **56,743** | 50,000 |

At September 30, 2022, Tenaz has non-capital losses of $27.5 million that expire between 2025 and 2042.

**Capital Expenditures**

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| **By classification** | | | | | |
| Exploration and evaluation expenditures | **-** | - | - | **-** | 80 |
| Property and equipment expenditures | **7,882** | 3,512 | 2,614 | **12,113** | 4,471 |
| Capital expenditures(1) | **7,882** | 3,512 | 2,614 | **12,113** | 4,551 |
| **By category** | | | | | |
| Geological and geophysical | **7** | 30 | - | **39** | 4 |
| Land | **81** | 157 | 80 | **283** | 220 |
| Drilling and completions | **7,086** | 3,319 | 2,064 | **10,498** | 2,981 |
| Workovers and recompletions | **4** | - | 147 | **41** | 650 |
| Equipping and tie-in | **510** | 11 | 264 | **831** | 437 |
| Facilities and pipelines | **277** | 3 | - | **444** | 75 |
| Other | **(83)** | (8) | 59 | **(23)** | 184 |
| Capital expenditures(1) | **7,882** | 3,512 | 2,614 | **12,113** | 4,551 |

(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 Q3 2022, Tenaz invested $7.9 million in capital expenditures which primarily related to the completion, equipping and tie-in of the two (1.75 net) horizontal wells at Leduc-Woodbend spud in late June 2022 and the drilling costs of a further two (1.75 net) horizontal wells at Leduc-Woodbend which spud in September 2022. In the first nine months of 2022, Tenaz invested $12.1 million in capital expenditures which included the equipping and tie-in of two (1.75 net) horizontal wells at Leduc-Woodbend drilled in December 2021, the drilling and completion, equipping and tie-in of two (1.75 net) horizontal wells at Leduc-Woodbend drilled in late June 2022, as well as the drilling costs related to two (1.75 net) horizontal wells at Leduc-Woodbend spud in September 2022.

### Acquisitions (Dispositions)

During 2021, the Company closed asset dispositions for cash proceeds of $1.75 million for a working interest of 2.75% in the Company's production, wells, lands and facilities through staged dispositions. From December 2019 to June 2021, the Company sold a combined 12.5% interest for the Canadian asset.

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

### Decommissioning Liability

At September 30, 2022, Tenaz's decommissioning liability was $1.3 million (December 31, 2021 - $2.6 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 1.65% (December 31, 2021 – 1.82%) and discounted at a credit-adjusted risk-free rate of 15.87% (December 31, 2021 – 8.38%).

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

The Company's Liability Management Rating ("**LMR**") with the Alberta Energy Regulator ("**AER**") was 6.47 at October 1, 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 Credit Facilities includes a covenant requiring the Company to maintain a LMR in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0. At September 30, 2022, Tenaz was in compliance with this covenant.

## CAPITAL RESOURCES AND LIQUIDITY

Adjusted working capital as at September 30, 2022 and December 31, 2021 is summarized as follows:

| ($000) | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Current assets | **21,516** | 27,499 |
| Current liabilities | **(7,629)** | (7,411) |
| Working capital surplus | **13,887** | 20,088 |
| Exclude fair value of derivative instruments | **-** | 600 |
| Adjusted working capital(1) | **13,887** | 20,688 |

(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 $13.9 million as at September 30, 2022 decreased from $20.7 million at December 31, 2021 primarily due to $12.1 million in capital expenditures offset by $5.4 million of funds flow from operations generated in the period.

### Credit Facilities

At September 30, 2022, Tenaz's credit facilities with ATB Financial (the "**Lender**") consists of an undrawn, revolving operating demand loan (the "**Operating Loan**") in the principal amount of up to $10.15 million (December 31, 2021 - $4.0 million) accruing interest at a rate of prime + 3.5% per annum and subject to redetermination at least annually with the next redetermination date expected December 31, 2022 (the "**Credit Facilities**").

During the three months ended September 30, 2022 the Company repaid bank debt of $15.9 million outstanding at the end of the second quarter of 2022 (December 31, 2021 - $nil), which had been drawn to fund the cash deposit for the terminated SDX acquisition.

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 Lender's 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.

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%.

The Credit Facilities are 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.

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 drawn and the fair value of any risk management contracts are excluded and the unused portion of the Credit Facilities is added to current assets; and
- the Company will maintain a liability management rating ("LMR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at September 30, 2022, Company was in compliance with all debt covenants. The working capital ratio as defined was 4.13:1 (December 31, 2021 – 4.60:1) and the Company was compliant with the LMR covenant (6.47 at October 1, 2022).

## Shareholders' Equity

At September 30, 2022, there were 28,405,374 Common Shares, 2,778,000 warrants, 1,845,500 stock options and 179,500 PSUs outstanding. A summary of the Company's change in Common Shares from December 31, 2021 to September 30, 2022 is presented below:

| | **Number of Common Shares** |
|---|---|
| Balance, December 31, 2021 | 28,438,074 |
| Exercise of stock options | 110,000 |
| Normal course issuer bid | (142,700) |
| **Balance, September 30, 2022** | **28,405,374** |

### *Share Repurchases*

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a normal course issuer bid ("**NCIB**"). The NCIB will allow Tenaz to purchase up to 2,619,970 common shares (approximately 9.2% of the outstanding common shares) over a twelve-month period beginning August 12, 2022 with a daily maximum purchase of 6,108 Common Shares.

The Company has entered into an automatic share purchase plan ("**ASPP**") with National Bank Financial which will allow for continued and consistent purchases of common shares at pre-determined levels. The ASPP will allow for the purchase of Common Shares at times when Tenaz would not be active in the market due to applicable regulatory restrictions or internal trading black-out periods.

During the three and nine months ended September 30, 2022 Tenaz purchased 142,700 common shares under the NCIB for total consideration of $255,112. The common shares purchased under the NCIB were cancelled following the settlement of the transactions.

| ($000, except as noted) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Share repurchase activities | | | | | |
| Common Shares repurchased | **(142,700)** | - | - | **(142,700)** | - |
| Amounts charged to: | | | | | |
| Share capital | **(324)** | - | - | **(324)** | - |
| Retained earnings | **69** | - | - | **69** | - |
| Share repurchase cost | **255** | - | - | **255** | - |
| Average cost per share ($) | **1.79** | - | - | **1.79** | - |

At November 10, 2022, there were 28,253,874 Common Shares, 2,778,000 warrants, 1,605,500 stock options and 179,500 PSUs outstanding.

**Capital Resources**

Tenaz has adequate liquidity to fund its remaining planned 2022 and budgeted 2023 capital expenditures through a combination of cash flow from operating activities, and cash on its balance sheet.

## SUMMARY OF QUARTERLY INFORMATION

| **Quarters Ended** ($000, except per share) | **Q3 2022** | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 | Q4 2020 |
|---|---|---|---|---|---|---|---|---|
| Petroleum and natural gas sales | **7,690** | 9,344 | 6,201 | 5,453 | 4,717 | 4,220 | 3,440 | 2,659 |
| Cash flow from operating activities | **1,444** | 1,936 | 1,158 | 373 | 1,982 | 763 | 827 | 206 |
| Net income (loss) | **224** | 769 | 3,497 | (258) | 10,105 | (532) | (976) | 10,730 |
| Per share – basic | **0.01** | 0.03 | 0.12 | (0.01) | 0.93 | (0.05) | (0.09) | 0.99 |
| Per share – diluted(1) | **0.01** | 0.03 | 0.12 | (0.01) | 0.93 | (0.05) | (0.09) | 0.99 |
| Shareholders' equity(2) | **70,819** | 70,493 | 69,191 | 65,315 | 35,950 | 25,264 | 25,625 | 26,570 |

(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.

## 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.

## 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.

## ACCOUNTING STANDARDS, CHANGE IN ACCOUNTING POLICIES AND PRONOUNCEMENTS

Tenaz's interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards as issued by the IASB. These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021. There were no new or amended accounting standards or interpretations issued during the three and nine months ended September 30, 2022 that are expected to have a material impact on the interim condensed consolidated financial statements.

A summary of significant accounting policies can be found in note 3 to the annual consolidated financial statements for the year ended December 31, 2021.

### Change in Accounting Policy – Decommissioning Liability

As described in Notes 1 and 18 of the audited consolidated financial statements for the year ended December 31, 2021 and as described in Notes 2 and 13 of the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2022, 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** | **September 30, 2021** | | | **December 31, 2020** | | |
|---|---|---|---|---|---|---|
| ($000) | **Previous accounting policy** | **Effect of change** | **Restated** | **Previous accounting policy** | **Effect of change** | **Restated** |
| E&E Assets | - | - | - | 260 | - | 260 |
| Property and equipment | 43,338 | - | 43,338 | 32,872 | - | 32,872 |
| Decommissioning liability | 5,466 | (2,956) | 2,510 | 5,802 | (3,672) | 2,130 |
| Retained earnings (deficit) | (12,750) | 2,956 | 9,794 | (22,063) | 3,672 | (18,391) |

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

| | For the year ended December 31 2021 | For the three months ended September 30, 2021 | | | For the nine months ended September 30, 2021 | | |
|---|---|---|---|---|---|---|---|
| ($000) | Effect of change | Previous accounting policy | Effect of change | Restated | Previous accounting policy | Effect of change | Restated |
| Depletion, depreciation and amortization | 31 | 1,176 | 11 | 1,187 | 3,319 | 41 | 3,360 |
| Impairment | 487 | (10,500) | 479 | (10,021) | (10,170) | 487 | (9,683) |
| Accretion of decommissioning liability | 96 | 26 | 24 | 50 | 77 | 70 | 147 |
| (Gain) loss on dispositions | 118 | - | - | - | (922) | 118 | (804) |
| Net income (loss) and comprehensive income (loss) | (732) | 10,619 | (514) | 10,105 | 9,313 | (716) | 8,597 |
| Net income (loss) per share ($/share) | | | | | | | |
| Basic | (0.05) | 0.97 | (0.04) | 0.93 | 0.86 | (0.07) | 0.79 |
| Diluted | (0.05) | 0.97 | (0.04) | 0.93 | 0.86 | (0.07) | 0.79 |

### *Consolidated Statements of Cash Flows*

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

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make certain judgments, accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses.

A summary of Tenaz’s critical accounting estimates, judgments and assumptions can be found in Note 2 to the annual consolidated financial statements for the year ended December 31, 2021. There have been no significant changes to the use of estimates, judgements or assumptions since December 31, 2021.

## RISK FACTORS AND 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 operate its business, and the availability of capital required by the Company to fund its operations.

See “Forward-Looking Information” in this MD&A and “Risk Factors” in Tenaz's most recently filed AIF information, available on SEDAR at www.sedar.com, for additional information.

## INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer are responsible for the establishment and maintenance of internal controls over financial reporting ("**ICFR**") including disclosure controls and procedures ("**DC&P**").

The Company began trading on the TSX on May 12, 2022, having previously been listed on the TSX Venture Exchange. The Company is in the process of reviewing and enhancing its internal control environment, including the Company's ICFR and DC&P, in accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. There have been no changes to the design of ICFR that occurred during the three month and nine month periods ended September 30, 2022 that have materially affected or are reasonably likely to materially affect the ICFR.

## ADVISORIES

### Non-GAAP and Other Financial Measures

This MD&A and quarterly 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 settle liabilities. 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) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Cash flow from operating activities | **1,444** | 1,936 | 1,982 | **4,538** | 3,572 |
| Change in non-cash working capital | **836** | 168 | (633) | **838** | (289) |
| Funds flow from operations | **2,280** | 2,104 | 1,349 | **5,376** | 3,283 |

Capital Expenditures

Tenaz considers capital expenditures to be a useful measure of the Company's investment in its existing asset base calculated as the sum of exploration and evaluation asset expenditures and property and equipment expenditures from the consolidated statements of cash flows that is most directly comparable to cash flows used in investing activities. The reconciliation to primary financial statement measures is set forth below:

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Exploration and evaluation expenditures | **-** | - | - | **-** | 80 |
| Property and equipment expenditures | **7,882** | 3,512 | 2,614 | **12,113** | 4,471 |
| Capital expenditures | **7,882** | 3,512 | 2,614 | **12,113** | 4,551 |

Acquisitions (Dispositions)

Tenaz considers acquisitions (dispositions) to be a useful measure of the economic investment associated with the Company's acquisition and disposition activity. Acquisitions (dispositions) are calculated as the sum of acquisitions and dispositions from the consolidated statements of cash flows, Tenaz Common Shares issued as consideration, the estimated value of contingent consideration, the amount of an acquiree's outstanding long-term debt assumed plus or net of acquired working capital deficit or surplus. A reconciliation to the acquisitions and dispositions line items in the consolidated Statements of cash flows is set forth below:

| ($000) | **Q3 2022** | Q2 2022 | Q3 2021 | **YTD 2022** | YTD 2021 |
|---|---|---|---|---|---|
| Dispositions | **-** | - | - | **-** | (1,750) |

### *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 derivative 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 quarterly 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 quarterly report contains forward-looking information and statements pertaining to: the TIP and Awards thereunder, the NCIB and expected share buybacks thereunder, Tenaz’s capital plans, activities and budget for 2022 and 2023, expected well performance, forecasted average production volumes and capital expenditures for 2022 and 2023, and the Company’s strategy.

The forward-looking information and statements contained in this MD&A and quarterly 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 quarterly 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; a failure to obtain necessary approvals as proposed or at all 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 quarterly report speak only as of the date of this MD&A and quarterly 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.

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

**As at**

| ($000) | Note | **September 30 2022** | December 31 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **17,315** | 25,470 |
| Accounts receivable | 10 | **3,780** | 1,777 |
| Prepaid expenses and deposits | | **421** | 252 |
| | | **21,516** | 27,499 |
| Property and equipment | 4 | **58,344** | 47,902 |
| Total assets | | **79,860** | 75,401 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | **7,566** | 6,750 |
| Current portion of lease liabilities | 6 | **63** | 61 |
| Derivative instruments | 10 | **-** | 600 |
| | | **7,629** | 7,411 |
| Lease liabilities | 6 | **66** | 106 |
| Decommissioning liability | 7 | **1,346** | 2,569 |
| Total liabilities | | **9,041** | 10,086 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 8 | **64,542** | 64,503 |
| Warrants | 8 | **3,203** | 3,203 |
| Contributed surplus | | **8,567** | 7,661 |
| Deficit | | **(5,493)** | (10,052) |
| Total shareholders' equity | | **70,819** | 65,315 |
| Total liabilities and shareholders' equity | | **79,860** | 75,401 |

See accompanying notes to the interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME (unaudited)

| | | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| ($000, except per share amounts) | Note | **2022** | 2021 Restated (Note 14) | **2022** | 2021 Restated (Note 14) |
| **REVENUE** | | | | | |
| Petroleum and natural gas sales | 9 | **7,690** | 4,717 | **23,235** | 12,377 |
| Royalties | | **(1,712)** | (532) | **(4,392)** | (1,382) |
| Petroleum and natural gas revenue | | **5,978** | 4,185 | **18,843** | 10,995 |
| **EXPENSES** | | | | | |
| Operating | | **1,917** | 1,391 | **5,293** | 3,787 |
| Transportation | | **197** | 168 | **657** | 559 |
| General and administrative | | **1,183** | 413 | **3,839** | 1,288 |
| Transaction costs | 3 | **295** | - | **1,752** | - |
| Interest and financing, net of income | | **103** | 66 | **99** | 265 |
| Foreign exchange (gain) loss | | **(326)** | - | **3** | - |
| Loss on derivative instruments | 10 | **295** | 763 | **1,224** | 3,239 |
| Share-based compensation | 8 | **339** | 63 | **981** | 240 |
| Depletion, depreciation and amortization | 4 | **1,702** | 1,187 | **4,596** | 3,360 |
| Impairment reversal | 4 | **-** | (10,021) | **(4,240)** | (9,683) |
| Accretion of decommissioning liability | 7 | **49** | 50 | **149** | 147 |
| Gain on dispositions | | **-** | - | **-** | (804) |
| | | **5,754** | (5,920) | **14,353** | 2,398 |
| Income before taxes | | **224** | 10,105 | **4,490** | 8,597 |
| Deferred tax recovery | | **-** | - | **-** | - |
| Net income and comprehensive income | | **224** | 10,105 | **4,490** | 8,597 |
| **Net income per share** | 8 | | | | |
| Basic | | **0.01** | 0.93 | **0.16** | 0.79 |
| Diluted | | **0.01** | 0.93 | **0.15** | 0.79 |

See accompanying notes to the interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

**For the periods ended September 30**

| ($000) | Note | Share capital | Warrants | Contributed surplus | Deficit | Total Equity |
|---|---|---|---|---|---|---|
| Balance, January 1, 2021 (Restated) | 13 | 37,712 | - | 7,249 | (18,391) | 26,570 |
| Share-based compensation expense | 8 | - | - | 240 | - | 240 |
| Share-based compensation capitalized | 8 | - | - | 45 | - | 45 |
| Net income for the period (Restated) | 13 | - | - | - | 8,597 | 8,597 |
| **Balance, September 30, 2021** | | **37,712** | **-** | **7,534** | **(9,794)** | **35,452** |
| | | | | | | |
| Balance, December 31, 2021 | | 64,503 | 3,203 | 7,661 | (10,052) | 65,315 |
| Exercise of stock options | 8 | 363 | - | (132) | - | 231 |
| Normal course issuer bid | | (324) | - | - | 69 | (255) |
| Share-based compensation expense | 8 | - | - | 981 | - | 981 |
| Share-based compensation capitalized | 8 | - | - | 57 | - | 57 |
| Net income for the period | | - | - | - | 4,490 | 4,490 |
| **Balance, September 30, 2022** | | **64,542** | **3,203** | **8,567** | **(5,493)** | **70,819** |

See accompanying notes to the interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| | | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| ($000) | Note | **2022** | 2021 | **2022** | 2021 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| Net income for the period | | **224** | 10,105 | **4,490** | 8,597 |
| Items not involving cash: | | | | | |
| Share-based compensation | 8 | **339** | 63 | **981** | 240 |
| Depletion, depreciation and amortization | 4 | **1,702** | 1,187 | **4,596** | 3,360 |
| Impairment reversal | 4 | **-** | (10,021) | **(4,240)** | (9,683) |
| Accretion of decommissioning liability | 7 | **49** | 50 | **149** | 147 |
| Unrealized foreign exchange loss | 10 | **(329)** | - | **-** | - |
| Unrealized (gain) loss on derivative instruments | 10 | **295** | (35) | **(600)** | 1,426 |
| Gain on dispositions | | **-** | - | **-** | (804) |
| Change in non-cash working capital | 12 | **(836)** | 633 | **(838)** | 289 |
| **Cash flow from operating activities** | | **1,444** | 1,982 | **4,538** | 3,572 |
| **CASH FLOW (USED IN) FROM INVESTING ACTIVITIES** | | | | | |
| Exploration and evaluation asset expenditures | | **-** | - | **-** | (80) |
| Property and equipment expenditures | 4 | **(7,882)** | (2,614) | **(12,113)** | (4,471) |
| Restricted cash – SDX deposit | 3 | **39,499** | - | **-** | - |
| Dispositions | | **-** | - | **-** | 1,750 |
| Change in non-cash working capital | 12 | **467** | 172 | **(518)** | 208 |
| **Cash flow (used in) from investing activities** | | **32,084** | (2,442) | **(12,631)** | (2,593) |
| **CASH FLOW (USED IN) FROM FINANCING ACTIVITIES** | | | | | |
| Advance (repayment) on bank debt | 5 | **(15,946)** | 133 | **-** | (852) |
| Normal course issuer bid | 8 | **(255)** | - | **(255)** | - |
| Proceeds from the exercise of stock options | 8 | **-** | - | **231** | - |
| Principal payments on lease liabilities | 6 | **(12)** | (10) | **(38)** | (28) |
| Change in non-cash working capital | 12 | **-** | (99) | **-** | (99) |
| **Cash flow (used in) from financing activities** | | **(16,213)** | 24 | **(62)** | (979) |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | | **17,315** | (436) | **(8,155)** | - |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | | **-** | 436 | **25,470** | - |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | | **17,315** | - | **17,315** | - |
| Cash interest paid | | **162** | 66 | **176** | 265 |

See accompanying notes to the interim condensed 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 Toronto Stock Exchange ("**TSX**") under the symbol "TNZ". On May 12, 2022, following approval from the TSX, Tenaz's common shares ("**Common Shares"**) were listed on the TSX and commenced trading at which time trading on the TSX Venture Exchange ceased (the "**TSX Graduation**").

Tenaz's principal place of business is located at 2500, 605 5$^{th}$ Avenue SW, Calgary, Alberta, T2P 3H5.

*Reorganization*

In the second half of 2021, (i) the Company raised aggregate gross proceeds of $31.3 million following two equity private placements and a rights offering; (ii) the Board was reconstituted and a new management team was appointed; and (iii) the Company's name was changed from "Altura Energy Inc." to "Tenaz Energy Corp" (collectively the "**Reorganization**").

## 2. BASIS OF PRESENTATION

### (a) Statement of Compliance

These interim condensed 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**") applicable to the preparation of interim financial statements, including International Accounting Standard 34, *Interim Financial Reporting* ("**IAS 34**"), and have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2021. In the opinion of management, these Financial Statements contain all adjustments necessary to present fairly Tenaz's financial position at September 30, 2022 and the results of its operations and cash flows for the three and nine months ended September 30, 2022 and 2021. Certain information and disclosures normally included in the notes to the audited consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these Financial Statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS as issued by the IASB.

These Financial Statements were approved by the Board of Directors on November 10, 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. All inter-entity transactions have been eliminated.

### (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 the audited consolidated statements for the year ended December 31, 2021. The impact of the change in accounting policy on these Financial Statements is described in Note 13.

### (e) Use of Estimates, Judgements and Assumptions

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.

There have been no significant changes to the use of estimates, judgements or assumptions since December 31, 2021, as detailed in note 2 of the audited consolidated financial statements for the year ended December 31, 2021.

## 3. TERMINATED ACQUISITION

### Offer to acquire SDX Energy Plc and termination of acquisition

On July 29, 2022, the Company terminated its previously proposed acquisition of SDX Energy Plc ("**SDX**").

On August 4, 2022, following the termination of the proposed SDX acquisition, the £25.0 million held in escrow as a deposit for a cash alternative to the SDX transaction was transferred back into Tenaz's bank account, the outstanding balances on the Credit Facilities were settled and the foreign exchange swaps were settled.

For the three and nine months ended September 30, 2022, the Company recognized $0.3 million and $1.8 million, respectively, of transaction costs related to the terminated transaction in net income (loss).

## 4. PROPERTY AND EQUIPMENT

The following table reconciles Tenaz's property and equipment:

| ($000) | Developed and Producing Assets | Administrative Assets | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance, December 31, 2020 | 65,373 | 203 | 65,576 |
| Additions | 10,273 | 38 | 10,311 |
| Share-based compensation | 62 | - | 62 |
| Dispositions | (2,044) | - | (2,044) |
| Change in decommissioning costs (Note 7) | 302 | - | 302 |
| Balance, December 31, 2021 | 73,966 | 241 | 74,207 |
| Additions | 12,091 | 22 | 12,113 |
| Share-based compensation (Note 8) | 57 | - | 57 |
| Change in decommissioning costs (Note 7) | (1,372) | - | (1,372) |
| **Balance, September 30, 2022** | **84,742** | **263** | **85,005** |
| **Depletion, depreciation and impairment** ($000) | | | |
| Balance, December 31, 2020 | (32,596) | (108) | (32,704) |
| Depletion, depreciation and amortization | (4,631) | (29) | (4,660) |
| Dispositions | 1,038 | - | 1,038 |
| Impairment reversal | 10,021 | - | 10,021 |
| Balance, December 31, 2021 | (26,168) | (137) | (26,305) |
| Depletion, depreciation and amortization | (4,575) | (21) | (4,596) |
| Impairment reversal | 4,240 | - | 4,240 |
| **Balance, September 30, 2022** | **(26,503)** | **(158)** | **(26,661)** |
| **Carrying amounts** ($000) | | | |
| As at December 31, 2021 | 47,798 | 104 | 47,902 |
| **As at September 30, 2022** | **58,239** | **105** | **58,344** |

Estimated future development costs of $114.8 million (December 31, 2021 – $102.6 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. In the nine months ended September 30, 2022, Tenaz capitalized cash and administrative costs (recoveries) directly attributable to property and equipment of ($0.04) million which are included in the additions above (2021 – $0.2 million).

For the nine months ended September 30, 2022 the Company has not identified any indicators of impairment.

**Impairment reversal**

*March 31, 2022*

At March 31, 2022, the significant increases in forecast benchmark commodity prices since the last impairment test at December 31, 2021, were considered indicators of impairment reversal. As a result, a test for impairment reversal was conducted on Tenaz’s developed and producing (“**D&P**”) assets in Tenaz’s only cash-generating unit (“**CGU**”), Leduc-Woodbend. The Company recognized an impairment reversal of $4.2 million, net of depletion, in the three months ended March 31, 2022 (2021 - $nil) due to the estimated recoverable amount of $51.1 million, using value in use, exceeding the carrying amount of these assets. Subsequent to the impairment reversal, no CGUs had any prior impairments that can be reversed in future periods.

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, updated using forecast oil and gas commodity prices at April 1, 2022, revised forecasted future development costs and operating expenses assumptions and removed production for the first three months of 2022, 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, 2022 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 March 31, 2022:

| | **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 Remainder | 94.50 | 102.91 | 5.30 | 0.800 |
| 2023 | 84.15 | 85.16 | 4.28 | 0.800 |
| 2024 | 77.51 | 77.04 | 3.69 | 0.800 |
| 2025 | 71.63 | 70.69 | 3.45 | 0.800 |
| 2026 | 73.06 | 72.10 | 3.52 | 0.800 |
| thereafter | +2.0%/yr | +2.0%/yr | +2.0%/yr | 0.800 |

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

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

The following table demonstrates the sensitivity of the impairment reversal amount at March 31, 2022 using reasonable changes in significant assumptions inherent in the estimate:

| ($000) | **Increase in discount rate of 1%** | **Decrease in discount rate of 1%** | **Decrease in forecasted combined average realized prices of 5%** | **Increase in forecasted combined average realized prices of 5%** |
|---|---|---|---|---|
| Impairment reversal increase (decrease) | - | -[1] | (4,900) | -[1] |

(1) Subsequent to the impairment reversal at March 31, 2022, the Company has $nil further impairments that can be reversed in future periods for its CGU. As such, a decrease in the discount rate or an increase in forecasted combined average realized prices would have no further impact for impairment reversal.

## 5. BANK DEBT

At September 30, 2022, Tenaz's credit facilities with ATB Financial (the "Lender") consists of an undrawn, revolving operating demand loan (the "Operating Loan") in the principal amount of up to $10.15 million (December 31, 2021 - $4.0 million) accruing interest at a rate of prime + 3.5% per annum and subject to redetermination at least annually with the next redetermination date expected December 31, 2022 (the "Credit Facilities").

During the three months ended September 30, 2022 the Company repaid the bank debt of $15.9 million outstanding at the end of the second quarter of 2022 (December 31, 2021 - $nil).

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.

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%.

The Credit Facilities are 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.

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 drawn and the fair value of any risk management contracts are excluded and the unused portion of the Credit Facilities is added to current assets; and
- the Company will maintain a liability management rating ("LMR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at September 30, 2022, Company was in compliance with all debt covenants. The working capital ratio as defined was 4.13:1 (December 31, 2021 – 4.60:1) and the Company was compliant with the LMR covenant (6.47 at October 1, 2022).

## 6. LEASE LIABILITIES

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

| ($000) | **Total** |
|---|---|
| Balance, December 31, 2020 | 206 |
| Lease interest | 11 |
| Total cash outflow | (50) |
| Balance, December 31, 2021 | 167 |
| Lease interest | 6 |
| Total cash outflow | (44) |
| **Balance, September 30, 2022** | **129** |
| Current lease liabilities | 63 |
| Non-current lease liabilities | 66 |

Tenaz has the following future commitments:

| ($000) | **As at September 30, 2022** |
|---|---|
| Total lease liabilities per above | **129** |
| Impact of discounting | 7 |
| Total lease payments | **136** |
| Lease payments due within one year | 68 |
| Lease payments due between one and three years | 68 |

## 7. 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 September 30, 2022 to be approximately $5.7 million (December 31, 2021 – $5.6 million) with the majority of costs anticipated to be incurred between 2030 and 2040. A credit-adjusted risk-free rate of 15.87% (December 31, 2021 – 8.38%)

and an inflation rate of 1.65% (December 31, 2021 – 1.82%) were used to calculate the decommissioning liability.

A reconciliation of the decommissioning liability is provided below:

| ($000) | **Nine months ended September 30, 2022** | Year ended December 31, 2021 |
|---|---|---|
| Balance, beginning of period[1] | **2,569** | 2,130 |
| Additions | **12** | 51 |
| Liabilities disposed | **-** | (68) |
| Change in estimates[2] | **(1,384)** | 257 |
| Accretion | **149** | 199 |
| Balance, end of period | **1,346** | 2,569 |
| Current - Expected to be incurred within one year | **-** | - |
| Non-current - Expected to be incurred beyond one year | **1,346** | 2,569 |

(1) The balance at December 31, 2020 was restated. Refer to Note 13.

(2) At September 30, 2022, the change in estimates is due to a $1.4 million decrease in decommissioning liability resulting from the change in the discount and inflation rates (December 31, 2021 - $0.3 million increase resulting from the change in the discount and inflation rates offset by a decrease in abandonment and remediation cost estimates and future abandonment dates totaling $0.06 million).

## 8. 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, 2020 | 10,892,097 | 37,712 |
| Issuance of Common Shares on recapitalization | 13,611,200 | 24,500 |
| Issuance of units on recapitalization | 2,777,800 | 5,000 |
| Allocation to warrants | - | (3,203) |
| Issuance of Common Shares on rights offering | 1,017,984 | 1,832 |
| Exercise of stock options | 139,000 | 470 |
| Fractional rounding on share consolidation | (7) | - |
| Share issue costs | - | (1,808) |
| Balance, December 31, 2021 | 28,438,074 | 64,503 |
| Exercise of stock options | 110,000 | 363 |
| Normal course issuer bid | (142,700) | (255) |
| **Balance, September 30, 2022** | **28,405,374** | **64,611** |

On December 23, 2021, the Company completed a 10-to-1 common share consolidation. The number of Common Shares, warrants and stock options outstanding have been adjusted on a retroactive basis and presented in these Financial Statements on a post-consolidation basis.

*(i) Exercise of Stock Options*

In the nine months ended September 30, 2022, 110,000 stock options were exercised for cash proceeds of $231,000. Contributed surplus related to the options exercised of $132,000 was transferred to share capital.

*(ii) Normal Course Issuer Bid ("NCIB")*

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a NCIB. The NCIB will allow Tenaz to purchase up to 2,619,970 common shares (approximately 9.2% of the outstanding common shares) over a twelve-month period beginning August 12, 2022 with a daily maximum purchase of 6,108 Common Shares.

The Company has entered into an automatic share purchase plan (“ASPP”) with National Bank Financial which will allow for continued and consistent purchases of common shares at pre-determined levels. The ASPP will allow for the purchase of Common Shares at times when Tenaz would not be active in the market due to applicable regulatory restrictions or internal trading black-out periods.

During the three and nine months ended September 30, 2022 Tenaz purchased 142,700 common shares under the NCIB for total consideration of $255,112. The common shares purchased under the NCIB were cancelled following the settlement of the transactions.

The following table summarizes the share repurchase activities during the period:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| ($000, except as noted) | **2022** | 2021 | **2022** | 2021 |
| Share repurchase activities (number of Common Shares) | | | | |
| Shares repurchased | **(142,700)** | - | **(142,700)** | - |
| Amounts charged to: | | | | |
| Share capital | **(324)** | - | **(324)** | - |
| Retained earnings | **69** | - | **69** | - |
| Share repurchase cost | **(255)** | - | **(255)** | - |
| Average cost per share ($) | **1.79** | - | **1.79** | - |

## (c) Warrants:

| | Number of Warrants | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, December 31, 2020 | - | - |
| Issuance of warrants on recapitalization | 2,777,800 | 1.80 |
| **Balance, December 31, 2021 and September 30, 2022** | **2,777,800** | **1.80** |

On October 8, 2021, as part of the Reorganization (Note 1), the Company closed 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 and one 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. These 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.

The Warrants issued in connection with the non-brokered private placement were allocated a fair value of $3.2 million.

As at September 30, 2022 and 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.

## (d) Incentive Plans:

### *Stock Option Plan*

The Company has a Stock Option Plan for directors, employees and service providers. Under the plan, stock options were granted to purchase Common Shares of Tenaz and the maximum term of stock options granted is five years. The Board of Directors determined the vesting schedule at the time of grant. Unless otherwise determined by the Board of Directors at the time of grant, stock options vest as to one-third on each of the first, second and third anniversary dates of the date of grant.

On May 31, 2022, the Tenaz Incentive Plan, as described below, replaced the Company's existing Stock Option Plan and no further stock options ("**Options**") may be granted under the Stock Option Plan. Outstanding Options granted under the Stock Option Plan will continue to be governed by the Stock Option Plan.

A summary of the Company's outstanding stock options at September 30, 2022 is presented below:

| | Number of Stock Options | Weighted Average Exercise Price ($) |
|---|---|---|
| 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 | (112,000) | 2.70 |
| Balance, December 31, 2021 | 2,030,500 | 2.60 |
| Exercised | (110,000) | 2.10 |
| Forfeited | (75,000) | 2.70 |
| **Balance, September 30, 2022** | **1,845,500** | **2.63** |

The range of exercise prices for stock options outstanding and exercisable under the plan at September 30, 2022 is as follows:

| Exercise Prices | Awards Outstanding | | | Awards Exercisable | | |
|---|---|---|---|---|---|---|
| | Quantity | Remaining contractual life (years) | Weighted Average Exercise Price ($) | Quantity | Remaining contractual life (years) | Weighted Average Exercise Price ($) |
| $2.10 | 240,000 | 0.02 | 2.10 | 240,000 | 0.02 | 2.10 |
| $2.70 | 1,595,000 | 4.15 | 2.70 | - | - | - |
| $3.75 - $4.15 | 10,500 | 0.76 | 3.95 | 10,500 | 0.80 | 3.95 |
| | **1,845,500** | **3.59** | **2.63** | **250,500** | **0.05** | **2.18** |

***Tenaz Incentive Plan***

On May 31, 2022, the Company's shareholders approved a new omnibus security-based compensation arrangement referred to as the Tenaz Incentive Plan (the "**TIP**") pursuant to which the Company is able to issue share-based long-term incentives. All directors, officers, employees and independent contractors of the Company and/or its affiliates (collectively, "**Service Providers**") are eligible to receive all or some of awards under the TIP. The purpose of the TIP is to: (i) promote the interest of Service Providers in the growth and development of the Company by providing such persons with the opportunity to acquire a proprietary interest in the Company; (ii) attract and retain valuable Service Providers to the Company through a competitive compensation program; and (iii) align the interests of Service Providers with those of Shareholders by devising a compensation program which encourages the long-term growth of the Company and returns to shareholders.

The types of awards available under the TIP include options, restricted share units ("RSUs"), performance share units ("PSUs"), deferred share units ("DSUs") and dividend-equivalent rights (collectively, "**Awards**"). Under the TIP, the maximum number of Common Shares issuable from treasury pursuant to Awards shall not exceed 10% of the total outstanding Common Shares from time to time (on a non-diluted basis) less the number of Common Shares issuable pursuant to all other security-based compensation arrangements of the Company (being the Stock Option Plan).

On August 31, 2022, Tenaz issued 179,500 PSUs to employees of the Company with a grant date fair value of $1.98 per award. The PSUs are an equity settled long term incentive and vest evenly over a period of three years. The PSUs are subject to a performance factor on the annual vesting date which can be in the range of 0 to 2. This performance factor will be multiplied by the number of PSUs each employee holds at the time of vesting. The performance factor is determined by the Board of Directors based on the Company's performance during the vesting period. Share-based compensation expense for the PSUs is calculated based on the $1.98 grant date fair value and the number of awards outstanding multiplied by the estimated performance factor (September 30, 2022 – 1.0) that will be realized upon vesting, net of an estimated forfeiture rate of 10%.

As of September 30, 2022, there were 1,845,500 Options outstanding and unexercised under the Stock Option Plan, 179,500 PSUs outstanding and 815,537 Common Shares available for issuance under the TIP. The TIP is administered by the Board or a committee of the Board.

**(e) Share-based Compensation**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| ($000) | **2022** | 2021 | **2022** | 2021 |
| Share-based compensation: | | | | |
| Options | **341** | 83 | **1,022** | 285 |
| PSUs | **16** | - | **16** | - |
| Total share-based compensation | **357** | 83 | **1,038** | 285 |
| Capitalized share-based compensation (Note 4) | **(18)** | (20) | **(57)** | (45) |
| Share-based compensation expensed | **339** | 63 | **981** | 240 |

**(f) Weighted average Common Shares:**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| ($000, except Common Shares and per share amounts) | **2022** | 2021 Restated (Note 13) | **2022** | 2021 Restated (Note 13) |
| **Net income – Basic and diluted** | **224** | 10,105 | **4,490** | 8,597 |
| **Weighted average Common Shares** | | | | |
| Basic | **28,519,700** | 10,892,097 | **28,485,801** | 10,892,097 |
| Diluted | **28,689,688** | 10,892,097 | **29,126,905** | 10,892,097 |
| **Net income per share** | | | | |
| Basic | **0.01** | 0.93 | **0.16** | 0.79 |
| Diluted | **0.01** | 0.93 | **0.15** | 0.79 |

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 period.

For the three months ended September 30, 2022, 1,845,500 outstanding stock options and 119,800 outstanding PSUs were excluded from the weighted average number of Common Shares as they were anti-dilutive (2021 – 8,965,000 stock options).

For the nine months ended September 30, 2022, 1,605,500 outstanding stock options and nil PSUs were excluded from the weighted average number of Common Shares as they were anti-dilutive (2021 – 8,965,000 stock options).

## 9. 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:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| ($000) | **2022** | 2021 | **2022** | 2021 |
| Heavy crude oil | **6,304** | 3,325 | **17,938** | 9,071 |
| Natural gas liquids | **307** | 374 | **1,160** | 803 |
| Natural gas | **1,079** | 1,018 | **4,137** | 2,503 |
| Petroleum and natural gas sales | **7,690** | 4,717 | **23,235** | 12,377 |

As at September 30, 2022, receivables for revenue were $2.5 million, which are included in accounts receivable (December 31, 2021 - $1.6 million).

## 10. FINANCIAL INSTRUMENTS AND DERIVATIVES

### Risks associated with financial assets and liabilities

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, derivative 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 have an acceptable credit risk. Tenaz enters into sales contracts with established creditworthy counterparties, limits the exposure to any one counterparty and restricts cash equivalent investments and risk management transactions to counterparties that are high investment grade chartered banks. 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, restricted cash, accounts receivable and the fair value of derivative instrument assets, if any.

The majority of the credit exposure on accounts receivable at September 30, 2022, pertain to revenue for accrued September 2022 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 and at period end, 50 percent of total outstanding accounts receivable pertains to four marketing companies. At September 30, 2022 Tenaz had a $0.8 million net joint venture receivable pertaining to capital expenditures and $0.3 million receivable resulting from GST filings. Subsequent to the period end, the $0.8 million joint venture receivable has been settled in full. For the nine months ended September 30, 2022, the Company received approximately 92 percent of its revenue from four marketing companies (2021 – 91 percent of its revenue from four marketing companies).

At September 30, 2022 and December 31, 2021, the Company's trade receivables have been aged as follows:

| **As at**<br>($000) | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Current | **3,780** | 1,706 |
| 31 – 60 days | **-** | 28 |
| 61 – 90 days | **-** | 40 |
| > 90 days | **-** | 3 |
| Allowance for doubtful accounts | **-** | - |
| Total | **3,780** | 1,777 |

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 capital management and an actively managed operating and capital expenditure budgeting process. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Credit Facilities, if any, are due on demand. Management believes that funds available from its credit and working capital facilities are adequate to settle the Company's financial liabilities.

As at September 30, 2022, the Company was holding $17.3 million in cash and cash equivalents and the unused portion of the operating loan was $10.0 million. The Company had outstanding letters of credit for $0.15 million (December 31, 2021 - $0.15 million).

As at September 30, 2022, the Company was in compliance with all its bank debt covenants.

***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 Credit Facilities. 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 may manage the risks associated with changes in commodity prices by entering into derivative instrument risk management contracts.

At September 30, 2022, Tenaz held no crude oil and natural gas contracts. At December 31, 2021, the crude oil and natural gas derivative contracts were fair valued with a liability of $0.6 million recorded on the balance sheet.

*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. In addition, the Company may be exposed to foreign exchange risk in relation to foreign denominated cash, foreign currency swaps as well as other foreign-denominated working capital. Tenaz may manage the risks associated with changes in foreign currency by entering into foreign currency swaps.

The Company had no risk management contracts that would be affected by foreign currency changes in place at September 30, 2022.

*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 bank debt is exposed to interest rate risk on floating interest rate indebtedness due to fluctuations in market interest rates.

During the three months ended September 30, 2022, Tenaz repaid in full the revolving operating loan and as such are not exposed to fluctuations in the interest rate related to outstanding loans.

**Derivative instruments assets and liabilities**

Derivative instrument assets and liabilities arise from the use of derivative contracts. Tenaz's derivative instrument assets and liabilities are classified as Level 2 with values based on inputs including quoted forward prices for commodities, time value and volatility factors. Accordingly, the Company's derivative financial instruments are classified as fair value through profit or loss and are reported at fair value with changes in fair value recorded in net income (loss).

At September 30, 2022, the Company did not have any outstanding derivative financial instruments recorded (December 31, 2021 - $600 liability)

The table below summarizes the gain (loss) on derivative instruments in net income (loss):

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| ($000) | **2022** | 2021 | **2022** | 2021 |
| **Realized loss** | | | | |
| Commodity contracts | **-** | (798) | **(1,824)** | (1,813) |
| Realized loss on derivative instruments | **-** | (798) | **(1,824)** | (1,813) |
| **Unrealized gain (loss)** | | | | |
| Commodity contracts | **-** | 35 | **600** | (1,426) |
| Foreign exchange swaps | **(295)** | - | **-** | - |
| Unrealized gain (loss) on derivative instruments | **(295)** | 35 | **600** | (1,426) |
| Gain (loss) on derivative instruments | **(295)** | (763) | **(1,224)** | (3,239) |

## 11. 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 derivative instruments.

Adjusted working capital (net debt) at September 30, 2022 and December 31, 2021 is summarized as follows:

| ($000) | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Current assets | **21,516** | 27,499 |
| Current liabilities | **(7,629)** | (7,411) |
| Working capital surplus | **13,887** | 20,088 |
| Exclude fair value of derivative instruments | **-** | 600 |
| Adjusted working capital | **13,887** | 20,688 |

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, if any.

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a NCIB. The NCIB will allow Tenaz to purchase up to 2,619,970 common shares (approximately 9.2% of the outstanding common shares) over a twelve-month period beginning August 12, 2022 with a daily maximum purchase of 6,108 Common Shares. During the three and nine months ended September 30, 2022 Tenaz purchased 142,700 common shares under the NCIB for total consideration of $255,112. The common shares purchased under the NCIB were cancelled following the settlement of the transactions.

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| ($000) | **2022** | 2021 | **2022** | 2021 |
| Provided by (used in): | | | | |
| Accounts receivable | **(419)** | 29 | **(2,003)** | (562) |
| Prepaid expenses and deposits | **(122)** | (151) | **(169)** | (155) |
| Accounts payable and accrued liabilities | **172** | 828 | **816** | 1,115 |
| | **(369)** | 706 | **(1,356)** | 398 |
| Provided by (used in): | | | | |
| Operating activities | **(836)** | 633 | **(838)** | 289 |
| Investing activities | **467** | 172 | **(518)** | 208 |
| Financing activities | **-** | (99) | **-** | (99) |
| | **(369)** | 706 | **(1,356)** | 398 |

## 13. IMPACT OF ACCOUNTING POLICY CHANGE

As described in Note 2, 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 for 2021 and to previously reported amounts as follows:

### Consolidated Balance Sheets

| As at | September 30, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| ($000) | Previous accounting policy | Effect of change | Restated | Previous accounting policy | Effect of change | Restated |
| E&E Assets | - | - | - | 260 | - | 260 |
| Property and equipment | 43,338 | - | 43,338 | 32,872 | - | 32,872 |
| Decommissioning liability | 5,466 | (2,956) | 2,510 | 5,802 | (3,672) | 2,130 |
| Retained earnings (deficit) | (12,750) | 2,956 | 9,794 | (22,063) | 3,672 | (18,391) |

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

| | For the year ended December 31 2021 | For the three months ended September 30, 2021 | | | For the nine months ended September 30, 2021 | | |
|---|---|---|---|---|---|---|---|
| ($000) | Effect of change | Previous accounting policy | Effect of change | Restated | Previous accounting policy | Effect of change | Restated |
| Depletion, depreciation and amortization | 31 | 1,176 | 11 | 1,187 | 3,319 | 41 | 3,360 |
| Impairment | 487 | (10,500) | 479 | (10,021) | (10,170) | 487 | (9,683) |
| Accretion of decommissioning liability | 96 | 26 | 24 | 50 | 77 | 70 | 147 |
| (Gain) loss on dispositions | 118 | - | - | - | (922) | 118 | (804) |
| Net income (loss) and comprehensive income (loss) | (732) | 10,619 | (514) | 10,105 | 9,313 | (716) | 8,597 |
| Net income (loss) per share ($/share) (Note 8) | | | | | | | |
| Basic | (0.05) | 0.97 | (0.04) | 0.93 | 0.86 | (0.07) | 0.79 |
| Diluted | (0.05) | 0.97 | (0.04) | 0.93 | 0.86 | (0.07) | 0.79 |

### 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

Bradley Bennett
Chief Financial Officer

Michael Kaluza
Chief Operating Officer

David Burghardt
Senior Vice President, Canada Business Unit

Jonathan Balkwill
Vice President, Business Development

Jennifer Russel-Houston
Vice President, Geoscience

### 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

Toronto Stock Exchange ("TSX")
Trading Symbol: **TNZ**

Tenaz Energy