# 2023 SECOND QUARTER REPORT

## FINANCIAL AND OPERATIONAL SUMMARY

| | Three months ended | | | Six months ended | |
|---|---|---|---|---|---|
| ($000 CAD, except per share and per boe amounts) | **Jun 30 2023** | Mar 31 2023 | Jun 30 2022 | **Jun 30 2023** | Jun 30 2022 |
| **FINANCIAL** | | | | | |
| Petroleum and natural gas sales | **10,614** | 17,926 | 9,344 | **28,540** | 15,545 |
| Cash flow from operating activities | **957** | 5,117 | 1,936 | **6,074** | 3,094 |
| Funds flow from operations(1) | **3,361** | 7,274 | 2,104 | **10,635** | 3,096 |
| Per share – basic(1)(2) | **0.12** | 0.26 | 0.07 | **0.38** | 0.11 |
| Per share – diluted(1) | **0.12** | 0.25 | 0.07 | **0.37** | 0.11 |
| Net income (loss) | **(757)** | 2,882 | 769 | **2,125** | 4,266 |
| Per share – basic | **(0.03)** | 0.10 | 0.03 | **0.08** | 0.15 |
| Per share – diluted | **(0.03)** | 0.10 | 0.03 | **0.07** | 0.15 |
| Capital expenditures(1) | **5,967** | 683 | 3,512 | **6,650** | 4,231 |
| Adjusted working capital (net debt)(1) | **17,094** | 18,763 | 19,431 | **17,094** | 19,431 |
| Common shares outstanding (000) | | | | | |
| End of period – basic | **27,378** | 27,733 | 28,548 | **27,378** | 28,548 |
| Weighted average for the period – basic | **27,555** | 27,917 | 28,481 | **27,735** | 28,469 |
| Weighted average for the period – diluted | **28,308** | 28,545 | 29,241 | **28,427** | 28,914 |
| **OPERATING** | | | | | |
| Average daily production | | | | | |
| Heavy crude oil (bbls/d) | **711** | 937 | 636 | **824** | 576 |
| Natural gas liquids (bbls/d) | **57** | 63 | 61 | **60** | 61 |
| Natural gas (mcf/d) | **6,802** | 8,022 | 2,524 | **7,409** | 2,551 |
| Total (boe/d)(2) | **1,903** | 2,337 | 1,117 | **2,119** | 1,062 |
| ($/boe)(2) | | | | | |
| Petroleum and natural gas sales | **61.31** | 85.23 | 91.90 | **74.43** | 80.84 |
| Royalties | **(4.80)** | (6.28) | (17.11) | **(5.61)** | (13.93) |
| Transportation expenses | **(3.66)** | (3.41) | (3.12) | **(3.52)** | (2.39) |
| Operating expenses | **(28.25)** | (24.69) | (14.47) | **(26.30)** | (17.56) |
| Midstream income(1) | **5.21** | 4.36 | - | **4.74** | - |
| Operating netback(1) | **29.81** | 55.21 | 57.20 | **43.74** | 46.96 |
| **BENCHMARK COMMODITY PRICES** | | | | | |
| WTI crude oil (US$/bbl) | **73.77** | 76.11 | 108.41 | **74.94** | 101.35 |
| WCS (CAD$/bbl) | **78.93** | 74.52 | 122.08 | **74.06** | 111.56 |
| AECO daily spot (CAD$/mcf) | **2.43** | 3.24 | 6.88 | **2.84** | 5.70 |
| TTF (CAD$/mcf) | **15.24** | 22.78 | 40.26 | **18.99** | 40.96 |

(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 six months ended June 30, 2023 (“MD&A”).

(2) 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

### Second Quarter Operating and Financial Results

- In June, Tenaz announced the signing of an agreement to purchase XTO Netherlands Ltd ("XTO"), increasing our position in the Dutch North Sea ("DNS"). We closed the XTO acquisition in early July 2023. Accordingly, we will recognize the operating and financial results from the XTO assets beginning with our Q3 2023 report. In June 2023, production from the XTO assets were approximately 475 boe/d[(1)], with total Netherlands production at approximately 1,250 boe/d.

  The XTO acquisition also increased our ownership in the NGT midstream assets to 21.4%, making Tenaz the second-largest shareholder in NGT. We consider the NGT infrastructure as integral for Netherlands energy security and the transition to cleaner energy in Europe.

- Production volumes averaged 1,903 boe/d in Q2 2023, 19% lower than Q1 2023 and 70% higher than Q2 2022. Production was lower compared to Q1 2023 due to facility turnarounds in both Canada and Netherlands. Production was higher than Q2 2022 due to the acquisition of a private company with Netherlands assets at the end of 2022 and continued organic growth in our Leduc-Woodbend field in Canada. Production acquired from XTO was not included in Q2 2023 results, with closing occurring after the end of the quarter.

  Production volumes averaged 2,119 boe/d in first half of 2023, 100% higher than the first six months of 2022. Production was higher due to the acquisition of Netherlands assets at the end of 2022 and development activity in Canada.

- Funds flow from operations ("FFO")[(2)] for the second quarter was $3.4 million, 54% lower than Q1 2023 and 60% higher than Q2 2022. Lower quarter-over-quarter FFO resulted from lower production and higher expenses due to facility turnarounds, coupled with lower prices for TTF natural gas[(3)].

  FFO for the six months ended June 30, 2023 was $10.6 million, 244% higher than in the comparable 2022 period. Higher 2023 FFO primarily resulted from contributions from the new Netherlands assets.

- Free cash flow[(2)] in the first half of 2023 was $4.0 million, compared to negative free cash flow of $1.1 million in the first six months of 2022, with improved contributions from both our Netherlands and Canadian assets.

- Net income for Q2 2023 was a loss of $0.8 million, as compared to profit of $2.9 million in Q1 2023 and profit of $0.8 million in Q2 2022. Lower net income resulted from lower production and higher expenses due to turnarounds in both Canada and Netherlands, as well as transaction costs for closed and prospective M&A activities. First half 2023 net income of $2.1 million was lower than net income of $4.3 million in the first half of 2022, primarily because a $4.2 million impairment reversal was recorded in Q1 2022.

- We ended the quarter with positive adjusted working capital (net debt)[(2)] of $17.1 million, an increase of $3.1 million over year-end 2022 as a result of the free cash flow generated in the first six months of 2023. Subsequent to the end of the quarter, as a part of the XTO acquisition, we acquired positive adjusted working capital of $46.7 million (subject to post-closing adjustments).

- Our Normal Course Issuer Bid ("NCIB") retired 716 thousand common shares (2.5% of basic common shares) at an average cost of $2.25 per share during the first six months of 2023. As of the end of July 2023, we have retired 1.22 million common shares (4.3% of basic common shares) at an average cost of $2.07 per share. During Q3 2023, we intend to apply for the renewal of our NCIB program for an additional year.

## Budget and Outlook

- Capital expenditures[2] during the second quarter totalled approximately $6.0 million, as Canadian drilling was initiated ahead of schedule. First half 2023 capital expenditures totalled $6.7 million. Annual guidance for capital expenditures remains unchanged at $20 to $24 million.

  Our planned 2023 Canadian development program is underway with four gross (3.35 net) wells now drilled and completions in progress. The four wells are expected to be tied-in at the end of Q3 2023.

- Production in the second half of 2023 is expected to increase as both Canada and the Netherlands are off turnarounds, XTO volumes are recognized, and the new Leduc-Woodbend wells are expected to come online at the end of Q3 2023.

  Annual production guidance, as updated following the XTO acquisition, is unchanged at 2,300 to 2,500 boe/d.

## Netherlands Resources

- We engaged McDaniel and Associates Consultants Ltd. ("McDaniel") to independently evaluate and prepare a report on the resource potential of our DNS assets (the "Resource Report"). The Resource Report has an effective date of July 1, 2023 and was prepared in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") and uses the resources and reserves definitions, standards and procedures set forth in the Canadian Oil and Gas Evaluation Handbook ("COGEH"). The Resource Report includes contingent and prospective resources attributable to the acquisitions of the Netherlands offshore assets completed on December 20, 2022 and the recent acquisition of XTO completed on July 3, 2023.

- The unrisked low, best, and high estimates for Tenaz's share of contingent resources are 2.4, 4.3, and 6.9 million boe ("mmboe") respectively, with a risked mean of 4.5 mmboe. McDaniel conducted an economic analysis of the best estimate case for the contingent resources using the three consultant average forecast prices and costs as of July 1, 2023. The Resource Report indicates after-tax net present values discounted at 10% for the best estimate contingent resources (2C) of $86.0 million (€58.5 million)[4].

- The unrisked low, best, and high estimates for Tenaz's share of prospective resources are 8.9, 19.8, and 48.5 mmboe respectively, with a risked mean of 10.2 mmboe after applying chance of discovery on a prospect-by-prospect basis.

(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 this MD&A.
(3) Dutch TTF Gas is a leading European benchmark price as the volumes traded represent more than 14 times the amount of gas used by the Netherlands for domestic purposes.
(4) Canadian dollar equivalent calculated using an exchange rate of 1.47 Canadian dollars per euro.

## PRESIDENT'S MESSAGE

We are pleased to provide this update along with our results for the second quarter of 2023. During Q2 2023, we advanced our overseas acquisition strategy, conducted turnarounds on our facilities in both Canada and Netherlands, and initiated our 2023 development program in Canada. We also commissioned an independent assessment by McDaniel of the resource potential in our Netherlands assets.

As announced prior to the end of Q2 2023, we acquired additional Netherlands assets from XTO with an effective date of January 1, 2023, closing this acquisition in early July 2023. As of our last data in June 2023, these assets are producing at the mid-point of their expected range of 475 boe/d(1). In combination with our earlier acquisition of a private company in December 2022, our total production rate in Netherlands as of June was approximately 1,250 boe/d. In the XTO purchase, we also increased our shareholding in the NGT midstream system by 10.1%, bringing our ownership in this high-reliability gathering business to 21.4%.

Production averaged 1,903 boe/d in Q2 2023, down 19% from our Q1 2023 levels. The main driver of the quarter-over-quarter decrease was facility turnaround work conducted in both Canada and Netherlands, during which time production was idled. The operator of our Dutch North Sea assets completed its annual maintenance and integrity management campaign, resulting in 26 days of downtime during April and May. Following the shut-down, production has been delivering on the prior expectations for these predictable reservoirs. The shutdown was timed to coincide with seasonally low demand for European natural gas. In Canada, we also conducted turnarounds at our two processing facilities, including an expansion of gas compression capacity at one facility to accommodate future production increases.

Despite the turnarounds, Q2 2023 production was still 70% higher than in Q2 2022, due to successful drilling in Canada in the second half of 2022 and the first Netherlands acquisition. First half 2023 production was 2,119 boe/d, up 100% from the first half of 2022, including an organic increase of 36% in Canada.

We generated FFO(2) of $3.4 million in Q2 2023, 54% below Q1 2023, primarily due to lower production as a result of the turnarounds. FFO for Q2 2023 was 60% higher than in Q2 2022, driven by higher production, including the impact of the first Netherlands acquisition.

We were able to get an earlier start than expected on our four gross (3.35 net) well drilling program at Leduc-Woodbend in Canada, taking advantage of availability of suitable drilling services and dry weather at the beginning of June. As a result, capital expenditures(2) ("CAPEX") in Canada was $4.2 million in Q2 2023, reflecting drilling of the first two wells. Because of wet weather in early July, our rig move to the next pad was delayed, and the program is back on its original schedule to deliver production at the end of Q3 2023. Netherlands CAPEX was $1.7 million in Q2 2023, roughly evenly split between Exploration & Development ("E&D") investment for facilities and technical work by the operator on the potential for Carbon Capture & Storage ("CCS").

Free cash flow(2) in the first half of 2023 was $4.0 million, compared to negative free cash flow of $1.1 million in the first six months of 2022, with improved contributions from both our Netherlands and Canadian assets.

Looking forward, our production guidance for full-year 2023 for both assets remains as previously announced, with Canada at 1,450 to 1,550 boe/d and Netherlands at 850 to 950 boe/d, for a corporate total of 2,300 to 2,500 boe/d. Capital guidance of $20 to $24 million also remains unchanged.

With respect to liquidity, positive adjusted working capital (net debt)(2) was $17.1 million as at June 30, 2023. This working capital balance was prior to the addition of approximately $46.7 million through the XTO acquisition. In addition, we remain undrawn on our $10 million bank facility.

Our Normal Course Issuer Bid ("NCIB") program retired 716 thousand common shares (2.5% of basic common shares) at an average cost of $2.25 per share during the first six months of 2023. As of the end of July 2023, we have retired 1.22 million common shares (4.3% of basic common shares) at an average cost of $2.07 per share. During Q3 2023, we plan to apply for the renewal of our NCIB program for an additional year.

Due to warm weather last winter and increased storage levels this summer, pricing for European natural gas (as referenced by the TTF index) was lower in Q2 2023. Despite higher storage levels, there is uncertainty about the ability to meet demand for a typical winter in 2023-2024, which is likely to support prices and maintain elevated volatility in the coming months. One of the main sources of supply for Europe is now imported LNG, and the competitive global landscape for LNG supply creates risks in the near-to-medium term. In addition, there is significant uncertainty regarding long-term supply replacement for historical imports of Russian gas, and risk of interruption of the remaining Russian deliveries into Europe. Consequently, forward TTF prices are at a meaningful premium to the prompt price of $16.24 per mcf. The forward price for Q4 2023 is $20.21 per mcf, with calendar 2024 at $22.50(3). Our view is that the presence of European natural gas in our product mix is differentiating and advantageous to Tenaz.

Our other major product is Canadian oil, for which WTI is currently priced at US$83 per bbl with WCS differentials contracting to approximately US$16 per bbl. Our crude typically sells at the WCS price without the addition of diluent. While Canadian natural gas is a less significant product in our mix, a meaningful portion of our AECO gas exposure is fixed for summer 2023 at prices above current market levels.

We view our recently-closed acquisitions as examples of our approach to finding real value in the overseas M&A market for producing properties. These transactions reflect our philosophy of issuing as little equity as possible, while still improving our balance sheet and liquidity. Our team of technical and finance professionals is dedicated to securing additional value-adding acquisitions and is fully aligned with the rest of our shareholder group in pursuit of our shared success. As we have previously stated, we can make no guarantees regarding the certainty or timing of the next transaction, but we are optimistic about bringing additional assets into the portfolio in the future. When we do so, we are confident that our acquisition investment will be consistent with our stated financial and strategic goals. We appreciate the support of our shareholders as we pursue realization of the Tenaz vision.

/s/ Anthony Marino

President and Chief Executive Officer
August 10, 2023

(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 this MD&A.
(3) As of close of markets on August 10, 2023.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations for Tenaz Energy Corp. (formerly Altura Energy Inc.) (the "Company" or "Tenaz") is dated August 10, 2023 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2023 and 2022, the audited consolidated financial statements and related notes for the years ended December 31, 2022 and 2021, as well as the Company's Annual Information Form ("AIF") that is found on SEDAR+ at www.sedarplus.ca. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard 34, *Interim Financial Reporting*. IFRS, as issued by the International Accounting Standards Board ("IASB"), are sometimes referred to in this MD&A as Generally Accepted Accounting Principles or ("GAAP").

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.

## 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. Tenaz has domestic operations in Canada along with offshore natural gas assets in the Netherlands. The domestic operations consist of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. The Netherlands natural gas assets are located in the Dutch sector of the North Sea. Additional information regarding Tenaz is available on SEDAR+ at www.sedarplus.ca and Tenaz's website at www.tenazenergy.com. Tenaz's Common Shares are listed for trading on the Toronto Stock Exchange under the symbol "TNZ".

## RESULTS OF OPERATIONS

### Operational and Financial Review

| | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Production** | | | | | |
| Heavy crude oil (bbls/d) | **711** | 937 | 636 | **824** | 576 |
| Natural gas liquids (bbls/d) | **57** | 63 | 61 | **60** | 61 |
| Natural gas (mcf/d) | **6,802** | 8,022 | 2,524 | **7,409** | 2,551 |
| Total (boe/d) | **1,903** | 2,337 | 1,117 | **2,119** | 1,062 |
| Net income (loss) | **(757)** | 2,882 | 769 | **2,125** | 4,266 |
| Per share – basic | **(0.03)** | 0.10 | 0.03 | **0.08** | 0.15 |
| Per share – diluted | **(0.03)** | 0.10 | 0.03 | **0.07** | 0.15 |
| Cash flow from operating activities | **957** | 5,117 | 1,936 | **6,074** | 3,094 |
| Funds flow from operations[1] | **3,361** | 7,274 | 2,104 | **10,635** | 3,096 |
| Per basic share[1] | **0.12** | 0.26 | 0.07 | **0.38** | 0.11 |
| Per basic diluted share[1] | **0.12** | 0.25 | 0.07 | **0.37** | 0.11 |
| Adjusted working capital (net debt)[1] | **17,094** | 18,763 | 19,431 | **17,094** | 19,431 |
| **Activity** | | | | | |
| Capital expenditures ($000)[1] | **5,967** | 683 | 3,512 | **6,650** | 4,231 |
| Drilling and development | **5,087** | 647 | 3,512 | **5,734** | 4,231 |
| Exploration and evaluation | **880** | 36 | - | **916** | - |
| Wells drilled – Gross/(Net) | **2 (1.8)** | - | 2 (1.8) | **2 (1.8)** | 2 (1.8) |
| Wells completed – Gross/(Net) | **-** | - | - | **-** | 2 (1.8) |

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

### *Production*

| | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Canada** | | | | | |
| Heavy crude oil (bbls/d) | **711** | 937 | 636 | **824** | 576 |
| Natural gas liquids (bbls/d) | **51** | 54 | 61 | **52** | 61 |
| Natural gas (mcf/d) | **3,360** | 3,414 | 2,524 | **3,389** | 2,551 |
| Total Canada (boe/d) | **1,323** | 1,560 | 1,117 | **1,441** | 1,062 |
| **Netherlands** | | | | | |
| Natural gas liquids (bbls/d) | **6** | 9 | - | **8** | - |
| Natural gas (mcf/d) | **3,442** | 4,608 | - | **4,020** | - |
| Total Netherlands (boe/d) | **580** | 777 | - | **678** | - |
| **Total Company** | | | | | |
| Heavy crude oil (bbls/d) | **711** | 937 | 636 | **824** | 576 |
| Natural gas liquids (bbls/d) | **57** | 63 | 61 | **60** | 61 |
| Natural gas (mcf/d) | **6,802** | 8,022 | 2,524 | **7,409** | 2,551 |
| Total Company (boe/d) | **1,903** | 2,337 | 1,117 | **2,119** | 1,062 |

*Canada*

- Quarterly production of 1,323 boe/d was lower than Q1 2023 as a result of natural declines as well as turnarounds and facility downtime at both batteries in the LWB field. The facility downtime included normal maintenance requirements and capacity enhancements for additional wells to be brought on-line.
- Production increased over Q2 2022 due to our successful 2022 drilling program.

- First half 2023 production volumes were higher than the prior year as a result of 2022 drilling, partially offset by higher downtime in 2023, as compared to the prior year period, to complete the more extensive turnarounds.

*Netherlands*

- Q2 2023 production was lower as a result of the annual spring maintenance campaign for the L10 production complex. Due to the scope of work completed in the 2023 campaign, downtime in the current period was 26 days, which lowered production for the quarter. Following the maintenance campaign, production was returned and delivered volumes for the month of June at rates that matched our prior expectations for the asset (761 boe/d for the month of June 2023, not including production for the assets acquired from XTO).

- Production-adding capital activity for the remainder of the year is expected to be limited, other than minor work to partially offset declines in existing fields through well interventions.

***Net Income***

*Quarterly comparison*

- Q2 2023 was lower than Q2 2022 based on the impacts of:
  - Increase in net income from Netherlands acquisition, income earned through acquisition of equity in NGT (accounted for as an investment in associate), and higher production in Canada from new wells brought online in the second half of 2022.
  - Partially offset by the impact of lower commodity prices for crude oil and natural gas in Canada, higher G&A associated with activity pertaining to corporate business development and transaction costs.
- Q2 2023 was lower than Q1 2023 based on the impacts of:
  - Lower production in Canada and the Netherlands, which decreased revenue, but this was partially mitigated by corresponding reductions to royalties and DD&A (Depreciation, Depletion, and Amortization).
  - Decreases in commodity prices, particularly a softening of European natural gas prices due to seasonal weakness.
  - Higher G&A and transaction costs attributed to specific activity in Q2 2022 related to acquisition activities.
  - The above factors partially offset by the absence of interest expense and lower overall tax expense.

*Year-to-date comparison*

- First half of 2023 was lower than 2022 based on the impacts of:
  - Absence of prior period impairment reversals, which occurred in Q1 2022, and without which the year-earlier period would have been nil.
  - Impact of lower commodity prices for crude oil and natural gas in Canada and higher operating costs due to annual maintenance campaigns.
  - Higher G&A and transaction costs arising from our corporate business development and recently completed acquisitions.
  - The above factors partially offset by increases in net income from Netherlands production, income recorded in the equity of NGT, and higher production in Canada from new wells brought online in the second half of 2022.

**Benchmark Commodity Prices**

| | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Average Benchmark Prices** | | | | | |
| WTI crude oil (US$/bbl)(1) | **73.77** | 76.11 | 108.41 | **74.94** | 101.35 |
| WCS differential (US$/bbl)(2) | **(15.01)** | (21.01) | (12.77) | **(19.97)** | (13.61) |
| US$/CAD$ exchange rate | **0.745** | 0.740 | 0.783 | **0.742** | 0.786 |
| WCS (CAD$/bbl) | **78.93** | 74.52 | 122.08 | **74.06** | 111.56 |
| AECO daily spot (CAD$/mcf) | **2.43** | 3.24 | 6.88 | **2.84** | 5.70 |
| TTF (CAD$/mcf)(3) | **15.24** | 22.78 | 40.26 | **18.99** | 40.96 |
| **Average Realized Prices**(4) | | | | | |
| Heavy crude oil ($/bbl) | **77.66** | 80.09 | 120.21 | **79.02** | 111.63 |
| Natural gas liquids ($/bbl) | **48.94** | 78.13 | 94.99 | **64.14** | 76.84 |
| Natural gas ($/mcf) | **8.61** | 14.86 | 8.11 | **11.98** | 6.62 |
| Petroleum and natural gas sales ($/boe) | **61.31** | 85.23 | 91.90 | **74.43** | 80.84 |

(1) WTI represents posting price of West Texas Intermediate (“WTI”) 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) TTF represents posting price of Title Transfer Facility (“TTF”) natural gas in the Netherlands.
(4) 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 based on western Canadian benchmark prices and natural gas production based on AECO prices in Alberta and TTF prices in the Netherlands. The average realized price the Company receives for its crude oil and natural gas production depends on several factors, including the average benchmark prices for crude oil and natural gas, the US-to-Canadian dollar exchange rate and transportation and product quality differentials.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal crude oil benchmarks that Tenaz compares its oil price to are the WTI and WCS oil prices. The differential between WTI and WCS oil prices can be volatile 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 scarcity of pipeline infrastructure or takeaway capacity connecting key consuming oil markets.

*Quarterly comparison*

- Q2 2023 commodity pricing was:
  - Lower than Q2 2022 for WCS in CAD terms, with a decrease of 35% on macro-economic driven weakness in oil markets the first half of 2023.
  - Lower than Q2 2022 for AECO, with a decrease of 65% driven by high storage levels for natural gas in North America following a weaker winter period for consumption.
- Q2 2023 commodity pricing was:
  - Higher than Q1 2023 for WCS with a 6% increase on tightening differentials, partially offset by weaker prices for WTI.
  - Lower than Q1 2023 for AECO with a 25% decrease associated with continued high seasonal storage levels in the second half of the winter heating season.
  - Lower than Q1 2023 for TTF with a 33% decrease as a result of a warmer-than-normal winter and high storage levels in Europe.
- Consolidated realized prices were lower by 33% and 28% when comparing against Q2 2022 and Q1 2023, respectively, from weakness in both European natural gas pricing and North American commodity prices, partially offset due to the inclusion of European natural gas into the production mix from the Netherlands acquisition that was closed in December 2022.

*Year-to-date comparison*

- First half of 2023 commodity pricing was:
  - Lower than 2022 for WCS in CAD terms with a decrease of 34% on macro-economic driven weakness in world oil markets.
  - Lower than 2022 for AECO with a decrease of 50% driven by high storage levels for natural gas following a weaker winter period for North American consumption.
  - Lower than 2022 for TTF with a decrease of 54% as a result of lower demand due to a warmer-than-normal winter and mandated gas conservation measures in Europe, creating less urgency for the refilling of storage. In addition, the first half of 2022 had significant supply uncertainty from the Russian invasion of Ukraine which led to a large price spike for European natural gas.
- Consolidated realized prices were 8% lower for the first six months of 2023 as compared to the same period in 2022 due to the decrease in North American crude oil and natural gas prices, partially offset by the inclusion of our Netherlands asset into our production mix.

## Financial Review

| ($000) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| Heavy crude oil | **5,026** | 6,754 | 6,953 | **11,780** | 11,634 |
| Natural gas liquids | **256** | 443 | 527 | **699** | 853 |
| Natural gas | **5,332** | 10,729 | 1,864 | **16,061** | 3,058 |
| Petroleum and natural gas sales | **10,614** | 17,926 | 9,344 | **28,540** | 15,545 |
| Royalties | **(831)** | (1,322) | (1,740) | **(2,153)** | (2,680) |
| Transportation expenses | **(634)** | (718) | (318) | **(1,352)** | (460) |
| Operating expenses | **(4,891)** | (5,193) | (1,471) | **(10,084)** | (3,376) |
| Midstream income[1][2] | **901** | 917 | - | **1,818** | - |
| General and administrative expenses | **(2,024)** | (1,687) | (1,410) | **(3,711)** | (2,656) |
| Transaction costs | **(377)** | (52) | (1,457) | **(429)** | (1,457) |
| Exploration and evaluation expenses | **441** | (441) | - | **-** | - |
| Interest and financing, net of income | **62** | (604) | 9 | **(542)** | 4 |
| Realized foreign exchange loss | **10** | (8) | - | **2** | - |
| Realized gain (loss) on derivatives | **(10)** | 91 | (853) | **81** | - |
| Current income taxes | **100** | (1,635) | - | **(1,535)** | (1,824) |
| Funds flow from operations[1] | **3,361** | 7,274 | 2,104 | **10,635** | 3,096 |

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(2) Tenaz includes the income from its associate, Noordgastransport BV, in midstream income. Midstream income is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

### *Funds Flow from Operations*

*Quarterly comparison*

- Q2 2023 was higher than Q2 2022 based on the impacts of:
  - Addition of operating income from Netherlands production.
  - Partially offset by higher G&A and lower commodity prices in Canada.
- Q2 2023 was lower than Q1 2023 based on the impacts of:
  - Lower Canada and Netherlands production due to maintenance outages.
  - Decrease in European natural gas prices, which reduced revenue but was partially offset by lower cash taxes.
  - Higher G&A and transaction costs were largely offset by absence of interest expense. Interest expense in Q1 2023 was driven by posting of decommissioning security for the DNS assets,

which was reduced to a lower amount during Q1, allowing full repayment of borrowing under our bank facility.

*Year-to-date comparison*

- First half of 2023 was higher than 2022 based on the impacts of:
  - Newly acquired Netherlands assets contributing operating income
  - Increased production in Canada resulting from additional wells drilled and put on production in the second half of 2022.
  - Partially offset by reduced commodity prices in Canada.

***Operating Netback Summary***

| ($/boe) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Canada** | | | | | |
| Petroleum and natural gas sales | **51.21** | 58.32 | 91.90 | **55.03** | 80.84 |
| Royalties | **(6.91)** | (9.42) | (17.11) | **(8.26)** | (13.93) |
| Transportation expenses | **(2.77)** | (3.11) | (3.12) | **(2.95)** | (2.39) |
| Operating expenses | **(19.24)** | (18.44) | (14.47) | **(18.81)** | (17.56) |
| Canada operating netback(1) | **22.29** | 27.35 | 57.20 | **25.01** | 46.96 |
| **Netherlands** | | | | | |
| Petroleum and natural gas sales | **84.34** | 139.25 | - | **115.66** | - |
| Transportation expenses | **(5.70)** | (4.03) | - | **(4.74)** | - |
| Operating expenses | **(48.80)** | (37.24) | - | **(42.22)** | - |
| Midstream income(1) | **17.08** | 13.11 | - | **14.82** | - |
| Netherlands operating netback(1) | **46.92** | 111.09 | - | **83.52** | - |
| **Total Company** | | | | | |
| Petroleum and natural gas sales | **61.31** | 85.23 | 91.90 | **74.43** | 80.84 |
| Royalties | **(4.80)** | (6.28) | (17.11) | **(5.61)** | (13.93) |
| Transportation expenses | **(3.66)** | (3.41) | (3.12) | **(3.52)** | (2.39) |
| Operating expenses | **(28.25)** | (24.69) | (14.47) | **(26.30)** | (17.56) |
| Midstream income(1) | **5.21** | 4.36 | - | **4.74** | - |
| Total Company operating netback(1) | **29.81** | 55.21 | 57.20 | **43.74** | 46.96 |

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

Total Company operating netback was lower in Q2 2023 as compared to both comparable periods due to:

- Lower commodity prices in Canada and Netherlands.
- Higher operating and transportation costs per boe partially offset the realized pricing enhancement associated with establishing European natural gas exposure.
- Income from NGT interest partially offset the higher cost per boe of the offshore gas assets.

Total Company operating netback was lower in the year-to-date period as compared to 2022 due to:

- Lower commodity prices in Canada partially offset by the resulting lower royalties.
- Higher operating and transportation costs per boe partially offset the realized pricing enhancement associated with European natural gas exposure.

### *Petroleum and Natural Gas Sales*

| ($000 except per boe) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Petroleum and natural gas sales** | | | | | |
| Canada | **6,164** | 8,188 | 9,344 | **14,352** | 15,545 |
| Netherlands | **4,450** | 9,738 | - | **14,188** | - |
| Total Company | **10,614** | 17,926 | 9,344 | **28,540** | 15,545 |
| **Per boe** | | | | | |
| Canada | **51.21** | 58.32 | 91.90 | **55.03** | 80.84 |
| Netherlands | **84.34** | 139.25 | - | **115.66** | - |
| Company | **61.31** | 85.23 | 91.90 | **74.43** | 80.84 |

*Quarterly comparison*

- Higher sales in Q2 2023 as compared to Q2 2022 reflected the additional contribution from the acquisition closed in December 2022 for assets in the DNS.
- Lower sales in Q2 2023 as compared to Q1 2023 resulted from lower European natural gas prices and reduced production due to facility related downtime in both countries.

*Year-to-date comparison*

- Sales for the first half of 2023 increased by 84% compared to the same period last year.
- Higher sales in the first half of 2023 reflect the additional contribution from the acquisition closed in December 2022 for assets in the DNS, partially offset by lower commodity prices in Canada.
- Sales for Canada for first half of 2023 were lower than 2022 despite higher production due to a 34% decrease in WCS prices and 50% decrease in AECO prices.

### *Royalties*

| ($000 except per boe) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Royalties** | | | | | |
| Canada | **831** | 1,322 | 1,740 | **2,153** | 2,680 |
| Netherlands | **-** | - | - | **-** | - |
| Total Company | **831** | 1,322 | 1,740 | **2,153** | 2,680 |
| **As a percentage of sales** | | | | | |
| Canada | **13.5%** | 15.2% | 18.6% | **15.0%** | 17.2% |
| Netherlands | **-** | - | - | **-** | - |
| Company | **7.8%** | 7.2% | 18.6% | **7.5%** | 17.2% |

Royalties are payable in Canada under standard terms depending on the underlying mineral rights. Royalties payable are influenced by a number of factors including capital spending and commodity prices realized. The royalties payable in Canada had the following impacts:

- Q2 2023 royalty expense was lower than Q1 2023 and Q2 2022 both on a per boe and percentage of sales basis for Canada.
- The reduction in royalties resulted from lower commodity prices, which reduced the royalty percentage which for a portion of our wells operates on a sliding pricing scale depending on commodity price.

Netherlands royalties pertaining to YTD 2023 were nil. Royalty rates for offshore natural gas are typically nil in Netherlands. However, for the annual periods of 2023 and 2024, natural gas production is subject to a 65% royalty above a realized pricing threshold (approximately $21 per mcf). The addition of the temporary royalty for calendar years 2023 and 2024 was in response to the European Union's initiative for member countries to levy a "Solidarity Contribution" or windfall tax on natural gas producers. The objective of the Solidarity Contribution is to partially subsidize the impact of higher domestic natural gas prices on consumers.

### *Operating Expenses*

| ($000 except per boe) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Operating expenses** | | | | | |
| Canada | **2,316** | 2,589 | 1,471 | **4,905** | 3,376 |
| Netherlands | **2,575** | 2,604 | - | **5,179** | - |
| Total Company | **4,891** | 5,193 | 1,471 | **10,084** | 3,376 |
| **Per boe** | | | | | |
| Canada | **19.24** | 18.44 | 14.47 | **18.81** | 17.56 |
| Netherlands | **48.80** | 37.24 | - | **42.22** | - |
| Company | **28.25** | 24.69 | 14.47 | **26.30** | 17.56 |

*Quarterly comparison (Canada)*

- Operating expense for Q2 2023, was $2.3 million, a decrease of 11% and an increase of 57%, from $2.6 million and $1.5 million, for Q1 2023 and Q2 2022, respectively.
- The reduction in Canadian Q2 2023 operating expense over Q1 2023 was mainly due to lower production in the current quarter. Q2 2023 operating expense was higher than the prior-year period because of facility maintenance, and additional variable operating costs associated with higher production volumes, primarily electricity, gas processing, and consumables.

*Quarterly comparison per boe (Canada)*

- Operating expense per boe for Q2 2023 was $19.24 per boe, an increase of 4% and increase of 33%, from $18.44 per boe and $14.47 per boe, for Q1 2023 and Q2 2022, respectively.
- On a per unit basis, Q2 2023 expenses were up marginally compared to Q1 2023 as lower production volumes were attributed a larger portion of the fixed field costs.

*Quarterly comparison (Netherlands)*

- Operating costs in Q2 2023 were similar to those costs incurred in Q1 2023.
- Costs associated with turnaround activities were offset with lower throughput-based costs during the quarter on lower volumes.

*Quarterly comparison per boe (Netherlands)*

- Operating expense on a per boe basis in Q2 2023 was higher than in the prior quarter, reflecting similar costs quarter-over-quarter but with reduced production due to the facility turnaround, which occurred in Q2 2023 and resulted in 26 days of downtime.

*Year-to-date comparison (Canada)*

- Operating expense for the first half of 2023, was $4.9 million, an increase of 45% from $3.4 million in 2022.
- First half 2023 operating expense was higher than the prior-year because of carbon tax, planned facility maintenance, and additional variable operating costs associated with higher production volumes, primarily electricity, gas processing, and consumables.

*Year-to-date comparison per boe (Canada)*

- Operating expense for the first half of 2023 was $18.81 per boe, an increase of 7% from $17.56 per boe in the comparable 2022 period.
- On a per unit basis, first-half 2023 expenses were up slightly compared to the comparable 2022 period as increased expenses associated with 2023 carbon tax and planned facility maintenance were not fully offset by increased production.

***Transportation Expenses***

| ($000 except per boe) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Transportation expenses** | | | | | |
| Canada | **334** | 436 | 318 | **770** | 460 |
| Netherlands | **300** | 282 | - | **582** | - |
| Total Company | **634** | 718 | 318 | **1,352** | 460 |
| **Per boe** | | | | | |
| Canada | **2.77** | 3.11 | 3.12 | **2.95** | 2.39 |
| Netherlands | **5.70** | 4.03 | - | **4.74** | - |
| Company | **3.66** | 3.41 | 3.12 | **3.52** | 2.39 |

*Quarterly comparison*

- Transportation costs are incurred in both regions to get processed oil and gas to markets.
- Netherlands transportation is a function of pipeline tariffs in which we also have a benefiting interest through our ownership interest in NGT. Cashflows from the equity income at NGT typically more than offsets any transportation costs incurred in the Dutch assets.
- Canadian transportation costs are a function of the cost of trucking clean oil to sales points and offsets to get natural gas to the market.

*Year-to-date comparison*

- First half of 2023 has higher costs for transportation overall and per boe as compared to 2022 due to the additional volumes acquired in the Netherlands, which have higher costs to get to market, increasing the Company per boe average.
- In Canada, increases in transportation per boe are attributed to increased trucking rates for crude oil year-over-year.

### *Other (Income) Expenses*

| ($000 except per boe) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Transaction costs | **377** | 52 | 1,457 | **429** | 1,457 |
| Income from associate[1] | **(901)** | (917) | - | **(1,818)** | - |
| Exploration and evaluation expenses | **(441)** | 441 | - | **-** | - |
| Interest and financing, net of income | **(62)** | 604 | (9) | **542** | (4) |

(1) Tenaz includes the income from its associate, NGT, in midstream income. Midstream income is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

*Transaction Costs*

Transaction costs for the periods were incurred for the acquisition in Netherlands which closed during December 2022. The costs in the most recent and preceding quarter relate to professional services including legal and tax advisory, as well as costs pertaining to technical and financial due diligence.

Business development costs associated with pursuing the Company's international acquisition strategy are included in G&A until a definitive agreement is reached, after which time they are classified as transaction costs.

*Income from Associate*

Tenaz recognizes its share of the net income of its affiliate Noordgastransport BV ("NGT") in income for its proportionate share of the underlying results. NGT is a company that owns and operates one of the three main pipeline networks servicing the DNS for gathering and processing of offshore natural gas. For Tenaz's interest in NGT, we recognized $0.9 million of after-tax earnings for each of the first two quarters of 2023. The primary revenue stream for NGT includes tariffs and throughput-based recoveries for its pipeline network from upstream producers of natural gas in its operating area. The combination of the upstream working interest and the equity interest in NGT results in economic benefits from the wellhead to onshore delivery to the European natural gas market for our share of production. The ultimate realization of earnings to cash is completed through dividend payments (annually in recent periods). Tenaz received the 2022 dividend declared from NGT in June 2023 and recorded the receipt as a change in cash with investing activities in the statement of cash flows.

*Exploration and Evaluation Expenses*

Tenaz recognizes the costs of projects in expense when under evaluation for consideration of potential projects where there is no specifically identified target and where no specific right to carry out the activity or explore an area exists. When a specific project is identified and where Tenaz has the right to explore the area or carry out the project costs are capitalized within Exploration and Evaluation on the balance sheet. When a project no longer meets the criteria for recognition under Exploration and Evaluation, they are either expensed if no longer being pursued, or are reclassified to another balance sheet component at the point the project is more certain or following success of the project in execution.

*Interest and Financing Expenses, Net of Income*

Current period interest reflects interest income from our positive cash position which bears interest at market interest rates. Q1 2023 interest charges were incurred for the cost of borrowing under our revolving credit facilities. which were drawn to facilitate the posting of decommissioning security for the DNS assets. The decommissioning security was reduced under the terms of the agreements on February 28, 2023, after which, Tenaz fully repaid its borrowings under the credit facilities.

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

| ($000) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Gross G&A | **2,283** | 2,002 | 1,559 | **4,285** | 3,068 |
| Capitalized G&A and overhead recoveries | **(259)** | (315) | (149) | **(574)** | (412) |
| Net G&A | **2,024** | 1,687 | 1,410 | **3,711** | 2,656 |

*Quarterly comparison*

- Q2 2023 was higher than Q2 2022 as a result of additional G&A for the Netherlands assets acquired in Q4 2022 and increased activity including engineering, legal and other professional services in support of our evaluation of business development opportunities.
- Q2 2023 was also higher than Q1 2023 with the increase being attributable to business development activities, including higher spending on contract professional and legal services.

*Year-to-date comparison*

- First half 2023 increased over the prior year in part due to increased costs for the expanding asset portfolio, including the number of legal entities, and additional services required for carrying on business in multiple jurisdictions.
- Continued focus on business development activities contributed to increases with higher spending on contract professional and legal services.

***Realized Gain (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 covenants and reducing foreign currency risk.

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

| ($000) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Commodity contracts | | | | | |
| Crude oil contracts | **(35)** | (67) | (606) | **(102)** | (1,423) |
| Natural gas contracts | **25** | 249 | (247) | **274** | (401) |
| Foreign currency swaps | **-** | (91) | - | **(91)** | - |
| Realized gain (loss) on derivatives | **(10)** | 91 | (853) | **81** | (1,824) |

A summary of the derivative instruments in place as at June 30, 2023 are shown in the "Unrealized Gain (Loss) on Derivative Instruments" section below.

**Net Income (Loss) and Funds Flow from Operations**

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

| ($000) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Funds flow from operations(1) | **3,361** | 7,274 | 2,104 | **10,635** | 3,096 |
| Unrealized foreign exchange gain | **36** | 47 | (329) | **83** | (329) |
| Unrealized gain (loss) on derivative instruments | **(259)** | 446 | 918 | **187** | 895 |
| Share-based compensation expense | **(509)** | (191) | (330) | **(700)** | (642) |
| Depletion, depreciation and amortization | **(3,566)** | (4,782) | (1,545) | **(8,348)** | (2,894) |
| Impairment reversal | **-** | - | - | **-** | 4,240 |
| Accretion of decommissioning liability | **(1,104)** | (1,132) | (49) | **(2,236)** | (100) |
| Deferred tax expense | **1,284** | 1,220 | - | **2,504** | - |
| Net income (loss) | **(757)** | 2,882 | 769 | **2,125** | 4,266 |

(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) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Share-based compensation: | | | | | |
| Stock Option Plan | **167** | 158 | 344 | **325** | 681 |
| Tenaz Incentive Plan | **365** | 49 | - | **414** | - |
| Total share-based compensation | **532** | 207 | 344 | **739** | 681 |
| Capitalized share-based compensation | **(23)** | (16) | (14) | **(39)** | (39) |
| Share-based compensation expense | **509** | 191 | 330 | **700** | 642 |

The Company has in place a shareholder approved 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").

Share-based compensation expense increased for Q2 2023 as a result of a new grant of TIP Awards. In Q2 2023, the Company issued 830,000 PSUs to officers and employees of the Company, 42,500 DSUs to Directors of the Company and 65,000 RSUs to Directors and employees of the Company with a grant date fair value of $2.10 per award using a 5-day volume weighted average price. The PSUs and RSUs vest over a period of one to three years and DSUs vest immediately upon granting.

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

DD&A for Q2 2023 and YTD 2023 increased as compared to both comparable periods in 2022 due to incremental depletion from the Netherlands assets acquired in December 2022. Per boe DD&A is also higher as the DD&A per boe for the new reserves is higher than that attributed to the Canadian assets.

DD&A for Q2 2023 decreased as compared to Q1 2023 due to lower production in the current quarter.

### *Impairment Reversal*

In Q1 2022, the significant increases in forecast benchmark commodity prices were identified as indicators of impairment reversal. The ensuing impairment reversal test resulted in the Company recognizing an impairment reversal of $4.2 million, net of depletion, for Tenaz's Leduc-Woodbend cash-generating unit. After the impairment reversal in Q1 2022, no cash-generating units had any prior impairments that could be reversed in future periods.

### *Accretion of Decommissioning Liability*

Accretion expense represents the increase in the decommissioning liability resulting from the passage of time. The increase in accretion for Q2 2023 and YTD 2023 as compared to both comparable periods in 2022 is mainly due to additional accretion from the Netherlands decommissioning liability acquired in December 2022.

Accretion expense in Q2 2023 was consistent with Q1 2023.

### *Unrealized Gain (Loss) on Derivative Instruments*

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

| ($000) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Commodity contracts | **(90)** | 18 | 623 | **(72)** | 600 |
| Foreign currency swaps | **(169)** | 428 | 295 | **259** | 295 |
| Unrealized gain (loss) on derivatives | **(259)** | 446 | 918 | **187** | 895 |

Tenaz executed fixed price commodity contracts in Q4 2022 in order to reduce the volatility of crude oil and natural gas sales, entered into a foreign currency swap in Q4 2022 to mitigate the exchange rate risk on euro-denominated restricted cash, which was settled in Q1 2023, and entered into foreign currency swaps in Q2 2023 to repatriate cash to Canadian dollars for higher deposit yields. The foreign currency swap allows Tenaz to exchange the Canadian dollars back to the original Euro amount in support of potential future requirements for its acquisition strategy.

The unrealized derivative gain in Q1 2023 pertains to the maturity of the foreign currency swap settled in the quarter, maturity of commodity contracts in the quarter, and the differences in the forward price compared to the contract price of outstanding commodity contracts.

The following is a summary of the derivative instruments in place as at June 30, 2023:

*Crude Oil and Natural Gas Contracts*

| **Period** | **Commodity** | **Type of Contract** | **Quantity** | **Pricing Point** | **Contract Price** | **Fair Value as at June 30 2023 ($000)** |
|---|---|---|---|---|---|---|
| **WCS vs WTI Basis Swap Contracts** | | | | | | |
| Jul 1/23–Dec 31/23 | Crude Oil | Swap | 200 bbls/d | WCS | WTI less USD $16.50 | (157) |
| **Natural Gas Swap Contracts** | | | | | | |
| Jul 1/23–Oct 31/23 | Natural Gas | Swap | 500 GJ/d | AECO 5A | CAD $2.85 | 37 |
| **Net derivative instrument liability** | | | | | | **(120)** |

In addition to financial hedges Tenaz enters into physical commodity sales arrangements from time-to-time. Tenaz has contracted a fixed price of $3.85/GJ for the summer 2023 period (April 1, 2023 to October 31, 2023) for physical delivery of 1,000 GJ/d of natural gas in Alberta.

*Foreign Currency Swaps*

| **Period** | **Type of Contract** | **Notional Amount** | **Notional Amount** | **Average Rate** | **Fair Value as at June 30 2023 ($000)** |
|---|---|---|---|---|---|
| **Foreign Currency Swaps** | | | | | |
| July 10, 2023 | Swap | EUR 8,500,000 | CAD 12,288,705 | 1.44573 | 8 |
| July 10, 2023 | Swap | EUR (6,500,000) | CAD (9,568,000) | 1.47200 | (177) |
| **Derivative instrument liability** | | | | | **(169)** |

***Income Taxes***

The Company's income taxes are detailed below:

| ($000) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Income Taxes** | | | | | |
| Current | **(100)** | 1,635 | - | **1,535** | - |
| Deferred | **(1,284)** | (1,220) | - | **(2,504)** | - |
| Total income tax expense (recovery) | **(1,384)** | 415 | - | **(969)** | - |
| **Current Income Taxes** | | | | | |
| Canada | **-** | - | - | **-** | - |
| Netherlands | **(100)** | 1,635 | - | **1,535** | - |
| Total Company | **(100)** | 1,635 | - | **1,535** | - |

*Current Taxes*

For the first six months of 2023, Tenaz recorded current income tax expense of $1.5 million related to our Netherlands upstream assets. In the Netherlands, a 50% effective income tax rate is applied to taxable profit from upstream oil and gas activity. In calculating taxable profit, an additional 10% uplift deduction is applied to decrease taxable profit from certain deductions, including operating, general and administrative, depletion and decommissioning costs.

Current tax recovery for Q2 2023 was a result of a decrease in operating profit due to planned downtime and decreased TTF prices which decreased the full year expected cash taxes.

*Deferred Taxes*

Tenaz recognized a deferred tax recovery for the three and six month period ending June 30, 2023 primarily associated with reduced accounting differences in Netherlands arising from the current quarter DD&A and accretion expense.

### Capital Expenditures

| ($000) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **By classification** | | | | | |
| Drilling and development | **5,087** | 647 | 3,512 | **5,734** | 4,231 |
| Exploration and evaluation | **880** | 36 | - | **916** | - |
| Capital expenditures[1] | **5,967** | 683 | 3,512 | **6,650** | 4,231 |
| **By country** | | | | | |
| Canada | **4,249** | 577 | 3,512 | **4,826** | 4,231 |
| Netherlands | **1,718** | 106 | - | **1,824** | - |
| Capital expenditures[1] | **5,967** | 683 | 3,512 | **6,650** | 4,231 |
| **By category** | | | | | |
| Geological and geophysical | **24** | 15 | 30 | **39** | 32 |
| Land | **90** | 12 | 157 | **102** | 202 |
| Drilling and completions | **3,096** | 4 | 3,319 | **3,100** | 3,412 |
| Workovers and recompletions | **169** | 2 | - | **171** | 37 |
| Equipping and tie-in | **318** | 116 | 11 | **434** | 321 |
| Facilities and pipelines | **1,305** | 369 | 3 | **1,674** | 167 |
| Carbon capture and storage project | **916** | - | - | **916** | - |
| Other | **49** | 165 | (8) | **214** | 60 |
| Capital expenditures[1] | **5,967** | 683 | 3,512 | **6,650** | 4,231 |

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

Capital activity for the second quarter included the drilling of two (1.75 net) wells at Leduc-Woodbend and capitalized turnaround costs in Canada and Netherlands. Costs associated with the ongoing efforts to study the potential of carbon capture and storage at L10 were also capitalized in Exploration and Evaluation assets in the period.

### Decommissioning Liability

At June 30, 2023, Tenaz's decommissioning liability was $30.7 million (December 31, 2022 - $30.4 million) for the future abandonment and reclamation of Tenaz's properties. The estimated decommissioning liability includes cost assumptions for costs to abandon wells or reclaim property and 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 increase in the decommissioning liability resulted from the recognized accretion expense and change on discount rates offset by changes in abandonment timing and costs, settlements and a strengthening of the Canadian versus the Euro which decreased the reported amount on the balance sheet.

The calculation of decommissioning liability applied the following rates:

| | | **June 30 2023** | | December 31 2022 |
|---|---|---|---|---|
| **Country** | **Inflation** | **Credit-adjusted risk-free rate** | Inflation | Credit-adjusted risk-free rate |
| Canada | **1.7%** | **12.8%** | 1.4% | 15.1% |
| Netherlands | **2.4%** | **12.4%** | 2.9% | 14.7% |

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

Accretion expense is the increase in the decommissioning liability resulting from the passage of time.

## CAPITAL RESOURCES AND LIQUIDITY

Adjusted working capital (net debt) as at June 30, 2023 and December 31, 2022 is summarized as follows:

| ($000) | **June 30 2023** | December 31 2022 |
|---|---|---|
| Current assets | **46,967** | 72,317 |
| Current liabilities | **(30,162)** | (58,749) |
| Net current assets | **16,805** | 13,568 |
| Exclude fair value of derivative instruments | **289** | 476 |
| Adjusted working capital (net debt)[1] | **17,094** | 14,044 |

(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 $17.1 million as at June 30, 2023 increased from $14.0 million as at December 31, 2022. The improved working capital position resulted mainly from positive cash flow during the first half of 2023 in combination with lower capital expenditures.

Subsequent to the end of the quarter, Tenaz closed the acquisition of XTO Netherlands Ltd. The acquisition, amongst other benefits, has enhanced the adjusted working capital through the addition of $46.7 million of working capital.

### Restricted Cash

At June 30, 2023, Tenaz held restricted cash of $17.0 million (€11.8 million) deposited with the operator as decommissioning security for Tenaz's interest in Netherlands assets, pursuant to decommissioning security agreements ("DSA") in place for the offshore licenses (December 31, 2022 - $59.1 million (€40.9 million) restricted cash).

Under the DSAs, decommissioning security is calculated annually and posted by parties to licenses where the future costs of decommissioning are higher than the estimated future cash flows from producing the assets. On February 28, 2023, the security required pursuant to the DSAs decreased from €40.9 million to €11.8 million. The decrease in the required security was due to several factors that go into the DSA determination, including completion of decommissioning activities and higher estimated future cash flows arising from the increase in European natural gas prices during the first half of 2022.

### Credit Facilities

Bank debt is comprised of the following:

| **As at** ($000) | **June 30 2023** | December 31 2022 |
|---|---|---|
| **Credit Facilities** | | |
| Operating Loan | **-** | 6,483 |
| Commercial Term Loan | **-** | 8,750 |
| EDC Term Loan | **-** | 6,250 |
| Total bank debt | **-** | 21,483 |

At June 30, 2023, Tenaz's credit facilities (the "Credit Facilities") with ATB Financial (the "Lender") consists of a revolving operating demand loan (the "Operating Loan") in the principal amount of up to $10.15 million (December 31, 2022 - $10.15 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 to be held on or before December 31, 2023.

On March 10, 2023, the following loans were repaid in full:

- a non-revolving facility in the principal amount of up to $8.75 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the "Commercial Term Loan"); and
- a non-revolving facility under Export Development Canada's Program in the principal amount of up to $6.25 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the "EDC Term Loan").

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 crude 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 $0.01 million, 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 1.00:1, 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.

At June 30, 2023, the Company was in compliance with all debt covenants. The working capital ratio as defined was 1.90:1 and the Company was compliant with the LMR covenant (8.40 at July 1, 2023).

**Liquidity Risk**

Liquidity risk is the risk that Tenaz 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.

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. At June 30, 2023, Tenaz had a current tax liability of $19.0 million related to the Netherlands operation, which is net of instalments paid to the Dutch Tax Authority. The $19.0 million liability consists of $2.2 million related to corporate income tax ("CIT") and state profit share ("SPS") along with $16.8 million owing as part of the temporary solidarity contribution imposed by the European Union. The Solidarity contribution is a tax on excess profits of energy companies due to the high price environment in 2022 and not payable until May 2024.

As at June 30, 2023, the Company was holding $24.6 million in cash and cash equivalents, $17.0 million (€11.8 million) in restricted cash and had $10 million available on undrawn Credit Facilities.

Management believes that the funds available from its credit and working capital facilities are adequate to settle the Company's financial liabilities and obligations as they come due.

**Shareholders' Equity**

Tenaz had the following outstanding instruments as at June 30, 2023 and December 2022:

| | **June 30 2023** | December 31 2022 |
|---|---|---|
| Common Shares | **27,377,574** | 28,093,174 |
| Warrants | **2,778,000** | 2,778,000 |
| Options | **1,525,000** | 1,530,500 |
| TIP Awards | | |
| PSUs | **1,008,500** | 179,500 |
| RSUs | **65,000** | - |
| DSUs | **42,500** | - |

A summary of the Company's change in Common Shares during the period is presented below:

| | **Number of Common Shares** |
|---|---|
| Balance, December 31, 2022 | 28,093,174 |
| Normal course issuer bid | (715,600) |
| **Balance, June 30, 2023** | **27,377,574** |

***Share Repurchases***

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a normal course issuer bid ("NCIB"). The NCIB allows 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 contracted an automatic share purchase plan ("ASPP") with National Bank Financial which allows for continued and consistent purchases of Common Shares at pre-determined levels. The ASPP allows 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 six months ended June 30, 2023, Tenaz purchased 715,600 Common Shares under the NCIB for a total consideration of $1.6 million. The Common Shares purchased under the NCIB were cancelled following settlement of the transactions.

| ($000, except as noted) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| **Share repurchase activities** | | | | | |
| Common Shares repurchased | **(355,500)** | (360,100) | - | **(715,600)** | - |
| Amounts charged to: | | | | | |
| Share capital | **(808)** | (825) | - | **(1,633)** | - |
| Retained earnings | **14** | 9 | - | **23** | - |
| Share repurchase cost | **(794)** | (816) | - | **(1,610)** | - |
| Average cost per share ($) | **2.23** | 2.27 | | **2.25** | |

***Tenaz Incentive Plan Awards***

In Q2 2023, the Board of Directors authorized a new grant of awards under the Tenaz Incentive Plan. The awards were granted as a combination of performance share units, deferred share units and restricted share units. The PSUs and the RSUs vest over a period of one to three years with the DSUs vesting immediately. The deferred share units are only redeemable by directors following the retirement of the individual from the Board of Tenaz.

As of the date of this MD&A, the following instruments were outstanding:

| | August 10 2023 |
|---|---|
| Common Shares | **27,308,674** |
| Warrants | **2,778,000** |
| Options | **1,525,000** |
| TIP Awards | |
| PSUs | **1,008,500** |
| RSUs | **65,000** |
| DSUs | **42,500** |

## SUMMARY OF QUARTERLY RESULTS

| **Quarters Ended** ($000, except per share and per boe amounts) | **Q2 2023** | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 |
|---|---|---|---|---|---|---|---|---|
| **Financial** | | | | | | | | |
| Petroleum and natural gas sales[5] | **10,614** | 17,926 | 10,852 | 7,690 | 9,344 | 6,201 | 5,453 | 4,717 |
| Cash flow from operating activities | **957** | 5,117 | 4,809 | 1,444 | 1,936 | 1,158 | 373 | 1,982 |
| Funds flow from operations[1][7] | **3,361** | 7,274 | 3,236 | 2,280 | 2,104 | 992 | 216 | 1,349 |
| Per share - basic[1][3] | **0.12** | 0.26 | 0.11 | 0.08 | 0.07 | 0.03 | 0.01 | 0.12 |
| Per share - diluted[1][3] | **0.12** | 0.25 | 0.11 | 0.08 | 0.07 | 0.03 | 0.01 | 0.12 |
| Net income (loss)[6] | **(757)** | 2,882 | 747 | 224 | 769 | 3,497 | (258) | 10,105 |
| Per share - basic[3] | **(0.03)** | 0.10 | 0.03 | 0.01 | 0.03 | 0.12 | (0.01) | 0.93 |
| Per share - diluted[2][3] | **(0.03)** | 0.10 | 0.03 | 0.01 | 0.03 | 0.12 | (0.01) | 0.93 |
| Capital expenditures[1][8] | **5,967** | 683 | 4,988 | 7,882 | 3,512 | 719 | 5,840 | 2,614 |
| Adjusted working capital (net debt)[1] | **17,094** | 18,763 | 14,044 | 13,887 | 19,431 | 20,995 | 20,688 | (3,462) |
| Common shares outstanding (000) | | | | | | | | |
| End of period - basic[3] | **27,378** | 27,733 | 28,093 | 28,405 | 28,548 | 28,458 | 28,438 | 10,892 |
| Weighted average for period - basic[3] | **27,555** | 27,917 | 28,242 | 28,520 | 28,481 | 28,457 | 26,069 | 10,892 |
| Weighted average for period - diluted[2][3] | **28,308** | 28,545 | 28,244 | 28,690 | 29,241 | 29,361 | 27,450 | 10,892 |
| **Operating** | | | | | | | | |
| Average daily production | | | | | | | | |
| Heavy crude oil (bbls/d) | **711** | 937 | 827 | 687 | 636 | 515 | 502 | 496 |
| Natural gas liquids (bbls/d) | **57** | 63 | 53 | 47 | 61 | 62 | 78 | 72 |
| Natural gas (mcf/d) | **6,802** | 8,022 | 3,843 | 2,929 | 2,524 | 2,579 | 2,895 | 2,861 |
| Total (boe/d)[4][5] | **1,903** | 2,337 | 1,520 | 1,222 | 1,117 | 1,007 | 1,063 | 1,045 |
| ($/boe)[4] | | | | | | | | |
| Petroleum and natural gas sales[5] | **61.31** | 85.23 | 77.59 | 68.39 | 91,90 | 68.44 | 55.78 | 49.04 |
| Royalties | **(4.80)** | (6.28) | (11.12) | (15.23) | (17.11) | (10.38) | (7.10) | (5.53) |
| Transportation expenses | **(3.66)** | (3.41) | (2.60) | (1.75) | (3.12) | (1.57) | (1.81) | (1.75) |
| Operating expenses | **(28.25)** | (24.69) | (21.56) | (17.04) | (14.47) | (21.02) | (12.20) | (14.44) |
| Midstream income[1] | **5.21** | 4.36 | - | - | - | - | - | - |
| Operating netback[1] | **29.81** | 55.21 | 42.31 | 34.37 | 57.20 | 35.47 | 34.67 | 27.32 |

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(2) Basic weighted average shares are used to calculate diluted per share amounts when the Company is in a loss position.
(3) On December 23, 2021, the Company completed a 10 to 1 common share consolidation. All per share and common share values have been presented on a post-consolidation basis.
(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.
(5) Over the past eight quarters, Tenaz's petroleum and natural gas sales fluctuated due to changes in production (including the timing of acquisitions and dispositions), volatility in benchmark commodity prices and realized pricing. Tenaz's production has fluctuated due to changes in capital expenditures, the Netherlands acquisition in December 2022, dispositions, voluntary shut-ins and subsequent reactivations and natural declines.

(6) Net income (loss) has fluctuated over the past eight quarters mainly due to changes in impairment and impairment reversals, changes in operating netback, derivative instrument gains and losses (which fluctuate with changes in future market prices), gains on dispositions, transaction costs incurred, share-based compensation, general and administrative expenses and income taxes recognized.
(7) Funds flow from operations has fluctuated over the past eight quarters, primarily due to fluctuations in operating netback, general and administrative expenses, transaction costs incurred, realized derivative instrument gains and losses, and current income taxes recognized.
(8) Capital expenditures have also fluctuated throughout the above periods due to changes in the Company's capital spending levels which vary based on several factors, including the prevailing commodity price environment, capital resources, availability of alternative investment opportunities and the timing of dispositions.

## 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.

The Company operates in a regulatory and commercial environment that exposes it to regulatory, contractual and litigation risks. As a result, the Company is involved in certain disputes and legal proceedings, including litigation, arbitration and regulatory investigations. Such cases are subject to many uncertainties, and the outcomes are often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reliably estimated. The probability of a material outflow due to any known legal action is considered by management to be remote.

## 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.

## SUBSEQUENT EVENTS

On July 3, 2023, Tenaz acquired 100% of the shares (the "Acquisition") of XTO Netherlands Ltd. from XH LLC, a wholly owned subsidiary of ExxonMobil Corporation. The Acquisition increases Tenaz's existing working interest in certain producing licenses in the Dutch sector of the North Sea. Tenaz's interest in each of the L10/L11a, K9, K12 and N7b producing license blocks increases by approximately 89%. Following the Acquisition, Tenaz's interest in the producing licenses increased to 21.4% for the L10/L11a, 15.9% for the K9a and K9b, 12.3% for the K9c, 10.7% for the K12 and 17.9% for the N7b licenses. Tenaz's interest in the undeveloped F10, F11a, F17, and F18 licenses remains unchanged as a result of the Acquisition, as does Tenaz's interest in the producing L10-O field. In addition, Tenaz acquired an additional 10.1% of the equity shares of NGT (Note 7), bringing Tenaz's interest to 21.4% of NGT.

Tenaz did not issue equity in connection with the Acquisition. No consideration was payable to the vendor on close, but remains subject to change upon finalization of working capital and other customary adjustments.

## 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, 2022.

### New Accounting Policies

#### *Amendments to IAS 12 Income Taxes*

In May 2021, the IASB issued amendments to IAS 12 *Income Taxes*, which require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Tenaz adopted the amendments on January 1, 2023. The adoption of the amendments did not have a material impact on the financial statements.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect reported assets, liabilities, revenues and expenses, gains and losses, and disclosures of any possible contingencies. These estimates and assumptions are developed based on the best available information which management believed to be reasonable at the time such estimates and assumptions were made. As such, these assumptions are uncertain at the time estimates are made and could change, resulting in a material impact on Tenaz's consolidated financial statements. Estimates are reviewed by management on an ongoing basis and as a result may change from period to period due to the availability of new information or changes in circumstances. Additionally, because of the unique circumstances of each jurisdiction that Tenaz operates in, the critical accounting estimates may affect one or more jurisdictions. There have been no material changes to our critical accounting estimates used in applying accounting policies for the three and six months ended June 30, 2023. Further information, including a discussion of critical accounting estimates, can be found in the notes to the audited consolidated financial statements and annual MD&A for the year ended December 31, 2022, available on SEDAR+ at www.sedarplus.ca or on Tenaz's website at www.tenazenergy.com.

## RISK FACTORS, RISK MANAGEMENT AND UNCERTAINTIES

Tenaz is exposed to various market and operational risks. For a discussion of these risks, please see "Forward-Looking Information" in this MD&A and Tenaz's MD&A and Annual Information Form, each for the year ended December 31, 2022 available on SEDAR+ at www.sedarplus.ca or on Tenaz's website at www.tenazenergy.com.

## CONTROL ENVIRONMENT

### Internal Control Update

Tenaz is required to comply with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). The certification of interim filings for the interim period ended June 30, 2023 requires that Tenaz disclose in the interim MD&A any changes in Tenaz's internal control over financial reporting ("ICFR") that occurred during the period that have materially affected, or are reasonably likely to materially affect, Tenaz's ICFR. Tenaz confirms that no such changes were made to its ICFR during the three and six months ended June 30, 2023.

Tenaz has limited the scope of disclosure controls and procedures ("DC&P") and ICFR to exclude controls, policies and procedures of the private U.S. corporation acquired through the Netherlands Acquisition on December 20, 2022. The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit the design of DC&P and ICFR to exclude controls, policies, and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

The table below presents the summary financial information of the private U.S. corporation acquired through the Netherlands Acquisition included in Tenaz's financial statements as at and for the three and six months ended June 30, 2023:

| **As at**<br>($000) | **June 30**<br>**2023** |
|---|---|
| Total assets | **94,329** |
| Total liabilities | **(91,159)** |

| ($000) | **Q2 2023** | **YTD 2023** |
|---|---|---|
| Petroleum and natural gas sales | **4,450** | **14,188** |
| Transportation expense | **(300)** | **(582)** |
| Operating expense | **(2,575)** | **(5,179)** |
| Midstream income(1) | **901** | **1,818** |
| Operating netback(1) | **2,476** | **10,245** |
| Net income | **834** | **3,103** |

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

## ADVISORIES

### Non-GAAP and Other Financial Measures

This MD&A and quarterly report contains the terms funds flow from operations and capital expenditures 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 measure 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.

***Non-GAAP Financial Measures***

*Funds flow from operations (“FFO”)*

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 settling liabilities. Funds flow from operations is calculated as cash flow from operating activities plus income from associate and before changes in non-cash operating working capital and decommissioning liabilities settled. 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) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Cash flow from operating activities | **957** | 5,117 | 1,936 | **6,074** | 3,094 |
| Change in non-cash operating working capital | **1,294** | 907 | 168 | **2,201** | 2 |
| Decommissioning liabilities settled | **209** | 333 | - | **542** | - |
| Income from associate | **901** | 917 | - | **1,818** | - |
| Funds flow from operations | **3,361** | 7,274 | 2,104 | **10,635** | 3,096 |

*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 drilling and development costs and exploration and evaluation costs. Exploration and evaluation asset additions (being exploration and evaluation costs) and property, plant and equipment additions (being drilling and development costs) 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) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Exploration and evaluation | **880** | 36 | - | **916** | - |
| Property, plant and equipment | **5,087** | 647 | 3,512 | **5,734** | 4,231 |
| Capital expenditures | **5,967** | 683 | 3,512 | **6,650** | 4,231 |

*Free Cash Flow ("FCF")*

Tenaz considers free cash flow to be a key measure of performance as it demonstrates the Company's excess funds generated after capital expenditures for potential shareholder returns, acquisitions, or growth in available liquidity. FCF is a non-GAAP financial measure most directly comparable to cash flows used in investing activities and is comprised of funds flow from operations less capital expenditures. A summary of the reconciliation of the measure, is set forth below:

| ($000) | **Q2 2023** | Q1 2023 | Q2 2022 | **YTD 2023** | YTD 2022 |
|---|---|---|---|---|---|
| Funds flow from operations | **3,361** | 7,274 | 2,104 | **10,635** | 3,096 |
| Less: Capital expenditures | **(5,967)** | (683) | (3,512) | **(6,650)** | (4,231) |
| Free cash flow | **(2,606)** | 6,591 | (1,408) | **3,985** | (1,135) |

*Midstream Income*

Tenaz considers midstream income an integral part of determining operating netback. Operating netback assists management and investors with evaluating operating performance. Tenaz's midstream income consists of the income from its associate, Noordgastransport B.V. Under IFRS, investments in associates are accounted for using the equity method of accounting. Income from associate is Tenaz's share of the investee's net income and comprehensive income. Operating netback is disclosed in the "Operating Netback" section of this MD&A.

***Non-GAAP Financial Ratio***

*Operating Netback*

Tenaz calculates operating netback on a dollar or per boe basis, as petroleum and natural gas sales less royalties, operating costs and transportation costs, plus midstream income (income from associate, as described above). 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.

***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.

***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 flow from operations divided by basic weighted average Common Shares.

“**Funds flow from operations per diluted share**” is comprised of funds flow 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 natural gas liquids commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas liquids 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", “guidance”, "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", “potential”, "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 2023, and our anticipated operational and financial performance; expected well performance; expected economies of scale; forecasted average production volumes and capital expenditures for 2023; the ability to grow our assets domestically and internationally; statements relating to a potential CCS project; 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; expectations regarding future development; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; expectations regarding future acquisition opportunities; 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 | **June 30 2023** | December 31 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **24,646** | 1,832 |
| Restricted cash | 4 | **16,973** | 59,091 |
| Accounts receivable | 11 | **4,172** | 10,251 |
| Prepaid expenses and deposits | | **1,131** | 1,099 |
| Derivative instruments | 11 | **45** | 44 |
| | | **46,967** | 72,317 |
| Exploration and evaluation assets | 5 | **15,611** | 14,706 |
| Property, plant and equipment | 6 | **100,329** | 104,275 |
| Right-of-use assets | | **225** | 12 |
| Investment in associate | 7 | **11,380** | 12,591 |
| **Total assets** | | **174,512** | 203,901 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Bank debt | 8 | **-** | 21,483 |
| Accounts payable and accrued liabilities | | **10,860** | 14,396 |
| Current portion of lease liabilities | | **6** | 66 |
| Taxes payable | | **18,962** | 22,284 |
| Derivative instruments | 11 | **334** | 520 |
| | | **30,162** | 58,749 |
| Lease liabilities | | **230** | 59 |
| Decommissioning liability | 9 | **30,716** | 30,435 |
| Deferred taxes | | **40,762** | 43,287 |
| **Total liabilities** | | **101,870** | 132,530 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 10 | **62,198** | 63,831 |
| Warrants | | **3,203** | 3,203 |
| Contributed surplus | | **9,610** | 8,871 |
| Deficit | | **(2,386)** | (4,534) |
| Accumulated other comprehensive income | | **17** | - |
| **Total shareholders' equity** | | **72,642** | 71,371 |
| **Total liabilities and shareholders' equity** | | **174,512** | 203,901 |
| | | | |
| Subsequent events | 7,14 | | |

See accompanying notes to the interim condensed consolidated financial statements.

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

| ($000, except per share amounts) | Note | Three months ended June 30 **2023** | 2022 | Six months ended June 30 **2023** | 2022 |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| Petroleum and natural gas sales | | **10,614** | 9,344 | **28,540** | 15,545 |
| Royalties | | **(831)** | (1,740) | **(2,153)** | (2,680) |
| **Petroleum and natural gas revenue** | | **9,783** | 7,604 | **26,387** | 12,865 |
| **EXPENSES** | | | | | |
| Transportation | | **634** | 318 | **1,352** | 460 |
| Operating | | **4,891** | 1,471 | **10,084** | 3,376 |
| Income from associate | 7 | **(901)** | - | **(1,818)** | - |
| General and administrative | | **2,024** | 1,410 | **3,711** | 2,656 |
| Transaction costs | | **377** | 1,457 | **429** | 1,457 |
| Interest and financing, net of income | | **(62)** | (9) | **542** | (4) |
| Exploration and evaluation | | **(441)** | - | **-** | - |
| Foreign exchange gain | | **(46)** | 329 | **(85)** | 329 |
| (Gain) loss on derivative instruments | 11 | **269** | (65) | **(268)** | 929 |
| Share-based compensation | 10 | **509** | 330 | **700** | 642 |
| Depletion, depreciation and amortization | | **3,566** | 1,545 | **8,348** | 2,894 |
| Impairment reversal | | **-** | - | **-** | (4,240) |
| Accretion of decommissioning liability | 9 | **1,104** | 49 | **2,236** | 100 |
| **Total expenses** | | **11,924** | 6,835 | **25,231** | 8,599 |
| **Net income (loss) before income taxes** | | **(2,141)** | 769 | **1,156** | 4,266 |
| **Provision for income taxes** | | | | | |
| Current | | **(100)** | - | **1,535** | - |
| Deferred | | **(1,284)** | - | **(2,504)** | - |
| **Total income taxes** | | **(1,384)** | - | **(969)** | - |
| **Net income (loss)** | | **(757)** | 769 | **2,125** | 4,266 |
| **Other comprehensive income** | | | | | |
| Currency translation adjustments | | **8** | - | **17** | - |
| **Net comprehensive income (loss)** | | **(749)** | 769 | **2,142** | 4,266 |
| **Net income (loss) per share** | | | | | |
| Basic | 10 | **(0.03)** | 0.03 | **0.08** | 0.15 |
| Diluted | 10 | **(0.03)** | 0.03 | **0.07** | 0.15 |

See accompanying notes to the interim condensed consolidated financial statements.

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

**For the periods ended June 30**

| ($000) | Note | Share capital | Warrants | Contributed surplus | Deficit | AOCI(1) | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2022 | | 64,503 | 3,203 | 7,661 | (10,052) | - | 65,315 |
| Exercise of stock options | | 363 | - | (132) | - | - | 231 |
| Share-based compensation | | | | | | | |
| - Expensed | 10 | - | - | 642 | - | - | 642 |
| - Capitalized | 10 | - | - | 39 | - | - | 39 |
| Net income for the period | | - | - | - | 4,266 | - | 4,266 |
| Balance, June 30, 2022 | | 64,866 | 3,203 | 8,210 | (5,786) | - | 70,493 |
| | | | | | | | |
| Balance, December 31, 2022 | | 63,831 | 3,203 | 8,871 | (4,534) | - | 71,371 |
| Normal course issuer bid | 10 | (1,633) | - | - | 23 | - | (1,610) |
| Share-based compensation | | | | | | | |
| - Expensed | 10 | - | - | 700 | - | - | 700 |
| - Capitalized | 10 | - | - | 39 | - | - | 39 |
| Net income for the period | | - | - | - | 2,125 | - | 2,125 |
| Currency translation adjustments | | - | - | - | - | 17 | 17 |
| **Balance, June 30, 2023** | | **62,198** | **3,203** | **9,610** | **(2,386)** | **17** | **72,642** |

(1) Accumulated other comprehensive income (“AOCI”)

See accompanying notes to the interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| ($000) | Note | Three months ended June 30 **2023** | Three months ended June 30 2022 | Six months ended June 30 **2023** | Six months ended June 30 2022 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Net income (loss) | | **(757)** | 769 | **2,125** | 4,266 |
| Items not involving cash: | | | | | |
| Share-based compensation | 10 | **509** | 330 | **700** | 642 |
| Depletion, depreciation and amortization | | **3,566** | 1,545 | **8,348** | 2,894 |
| Impairment reversal | | **-** | - | **-** | (4,240) |
| Income from associate | 7 | **(901)** | - | **(1,818)** | - |
| Accretion of decommissioning liability | 9 | **1,104** | 49 | **2,236** | 100 |
| Unrealized foreign exchange gain | | **(36)** | 329 | **(83)** | 329 |
| Unrealized (gain) loss on derivative instruments | 11 | **259** | (918) | **(187)** | (895) |
| Deferred taxes | | **(1,284)** | - | **(2,504)** | - |
| Decommissioning liabilities settled | 9 | **(209)** | - | **(542)** | - |
| Change in non-cash working capital | | **(1,294)** | (168) | **(2,201)** | (2) |
| **Cash flow from operating activities** | | **957** | 1,936 | **6,074** | 3,094 |
| **INVESTING ACTIVITIES** | | | | | |
| Exploration and evaluation | 5 | **(880)** | - | **(916)** | - |
| Property, plant and equipment | 6 | **(5,087)** | (3,512) | **(5,734)** | (4,231) |
| Restricted cash for security arrangements | 4 | **-** | (39,499) | **42,674** | (39,499) |
| Dividend from associate | 7 | **3,002** | - | **3,002** | - |
| Change in non-cash working capital | | **2,604** | 3,149 | **830** | (985) |
| **Cash flow used in investing activities** | | **(361)** | (39,862) | **39,856** | (44,715) |
| **FINANCING ACTIVITIES** | | | | | |
| Advance (repayment) of bank debt | 8 | **-** | 15,946 | **(21,483)** | 15,946 |
| Normal course issuer bid | 10 | **(794)** | - | **(1,610)** | - |
| Proceeds from the exercise of stock options | | **-** | 189 | **-** | 231 |
| Principal payments on lease liabilities | | **(2)** | (13) | **(18)** | (26) |
| **Cash flow used in financing activities** | | **(796)** | 16,122 | **(23,111)** | 16,151 |
| **Foreign exchange loss on cash held in foreign currencies** | | **(143)** | - | **(5)** | - |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | | **(343)** | (21,804) | **22,814** | (25,470) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | | **24,989** | 21,804 | **1,832** | 25,470 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | | **24,646** | - | **24,646** | - |
| Cash interest paid | | **40** | 9 | **638** | 14 |
| Cash taxes paid | | **2,602** | - | **4,856** | - |

See accompanying notes to the interim condensed consolidated financial statements.

## 1. REPORTING ENTITY

Tenaz Energy Corp. ("Tenaz" or the "Company") 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. Tenaz has domestic operations in Canada along with offshore natural gas assets in the Netherlands. The domestic operations consist of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. The Netherlands natural gas assets are located in the Dutch sector of the North Sea. 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 with its common shares ("Common Shares") listed on the Toronto Stock Exchange ("TSX") under the symbol "TNZ".

Tenaz's principal place of business is located at 1100, 605 5th Avenue SW, Calgary, Alberta, T2P 3H5.

## 2. BASIS OF PRESENTATION

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, 2022.

These Financial Statements should be read in conjunction with Tenaz's audited consolidated financial statements for the year ended December 31, 2022, which are available on SEDAR+ at www.sedarplus.ca or on Tenaz's website at www.tenazenergy.com.

These Financial Statements were approved by the Board of Directors on August 10, 2023.

All financial information is reported in Canadian dollars, unless otherwise noted. References to "EUR" or "€" are to Euros.

### Acquisition of private company with Netherlands upstream and midstream assets

On December 20, 2022, pursuant to a Share Purchase Agreement, Tenaz completed the acquisition of 100% of the issued and outstanding shares of a private U.S. company with Netherlands upstream and midstream assets (the "Acquisition").

During the six months ended June 30, 2023, no adjustments have been made to the preliminary purchase price allocation for the Acquisition. Upon finalizing the value of the net assets acquired, liabilities assumed and total consideration, adjustments may be required as values subject to estimate are finalized, including the finalization of income taxes for working capital adjustments affecting consideration.

### Use of judgments, estimates and assumptions

The preparation of financial statements requires management to use judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated.

There have been no significant changes to the use of judgments, estimates, and assumptions since December 31, 2022, as detailed in Note 5 of the audited consolidated financial statements for the year ended December 31, 2022.

## 3. SEGMENTED INFORMATION

Following the Acquisition on December 20, 2022, Tenaz commenced business in the Netherlands through a wholly-owned subsidiary acquired with a Euro functional currency. Tenaz has a business unit structure designed to manage assets in each country in which the Company operates. Tenaz's operating segments derive its revenues solely from the production and sale of petroleum and natural gas. Tenaz has two key operating segments: Canadian business unit and the Netherlands business unit. Tenaz's Canadian business unit includes costs incurred at the Company's corporate head office located in Calgary, Alberta, Canada.

Tenaz's chief operating decision maker regularly reviews funds flow from operations generated by each of Tenaz's operating segments. Funds flow from operations is a measure the Company considers to be comparable to earnings in that it provides the chief operating decision maker with the ability to assess the profitability of each operating segment and, correspondingly, the ability of each operating segment to fund its share of decommissioning liabilities and capital investments.

| | | | | **Three months ended June 30** |
|---|---|---|---|---|
| | | | **2023** | 2022 |
| ($000) | **Netherlands** | **Canada/ Corporate** | **Total** | **Canada/Total** |
| Total assets | 86,034 | 88,478 | **174,512** | 95,442 |
| Exploration and evaluation asset additions | 880 | - | **880** | - |
| Property, plant and equipment additions | 838 | 4,249 | **5,087** | 3,512 |
| Heavy crude oil | - | 5,026 | **5,026** | 6,953 |
| Natural gas liquids | 38 | 218 | **256** | 527 |
| Natural gas | 4,412 | 920 | **5,332** | 1,864 |
| Petroleum and natural gas sales | 4,450 | 6,164 | **10,614** | 9,344 |
| Royalties | - | (831) | **(831)** | (1,740) |
| Revenue | 4,450 | 5,333 | **9,783** | 7,604 |
| Transportation expenses | (300) | (334) | **(634)** | (318) |
| Operating expenses | (2,575) | (2,316) | **(4,891)** | (1,471) |
| Income from associate(1) | 901 | - | **901** | - |
| General and administrative expenses | (250) | (1,774) | **(2,024)** | (1,410) |
| Exploration and evaluation expenses | 441 | - | **441** | - |
| Current income taxes | 100 | - | **100** | - |
| Transaction costs | - | (377) | **(377)** | (1,457) |
| Interest and financing, net of income | - | 62 | **62** | 9 |
| Realized foreign exchange gain | - | 10 | **10** | - |
| Realized loss on derivative instruments | - | (10) | **(10)** | (853) |
| Funds flow from operations | 2,767 | 594 | **3,361** | 2,104 |

(1) Midstream income from Noordgastransport BV

| | | | Six months ended June 30 | |
|---|---|---|---|---|
| | | | **2023** | 2022 |
| ($000) | **Netherlands** | **Canada/ Corporate** | **Total** | **Canada/Total** |
| Total assets | 86,034 | 88,478 | **174,512** | 95,442 |
| Exploration and evaluation asset additions | 916 | - | **916** | - |
| Property, plant and equipment additions | 908 | 4,826 | **5,734** | 4,231 |
| Heavy crude oil | - | 11,780 | **11,780** | 11,634 |
| Natural gas liquids | 181 | 518 | **699** | 853 |
| Natural gas | 14,007 | 2,054 | **16,061** | 3,058 |
| Petroleum and natural gas sales | 14,188 | 14,352 | **28,540** | 15,545 |
| Royalties | - | (2,153) | **(2,153)** | (2,680) |
| Revenue | 14,188 | 12,199 | **26,387** | 12,865 |
| Transportation expenses | (582) | (770) | **(1,352)** | (460) |
| Operating expenses | (5,179) | (4,905) | **(10,084)** | (3,376) |
| Income from associate[(1)] | 1,818 | - | **1,818** | - |
| General and administrative expenses | (538) | (3,173) | **(3,711)** | (2,656) |
| Exploration and evaluation expenses | - | - | **-** | - |
| Current income taxes | (1,535) | - | **(1,535)** | - |
| Transaction costs | - | (429) | **(429)** | (1,457) |
| Interest and financing, net of income | - | (542) | **(542)** | 4 |
| Realized foreign exchange gain | - | 2 | **2** | - |
| Realized gain (loss) on derivative instruments | - | 81 | **81** | (1,824) |
| Funds flow from operations | 8,172 | 2,463 | **10,635** | 3,096 |

(1) Midstream income from Noordgastransport BV

*Reconciliation of funds flow from operations to net income (loss)*

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000) | **2023** | 2022 | **2023** | 2022 |
| Funds flow from operations | **3,361** | 2,104 | **10,635** | 3,096 |
| Unrealized foreign exchange gain (loss) | **36** | (329) | **83** | (329) |
| Unrealized gain (loss) on derivative instruments | **(259)** | 918 | **187** | 895 |
| Share-based compensation | **(509)** | (330) | **(700)** | (642) |
| Depletion, depreciation and amortization | **(3,566)** | (1,545) | **(8,348)** | (2,894) |
| Impairment reversal | **-** | - | **-** | 4,240 |
| Accretion of decommissioning liability | **(1,104)** | (49) | **(2,236)** | (100) |
| Deferred tax expense | **1,284** | - | **2,504** | - |
| Net income (loss) | **(757)** | **769** | **2,125** | **4,266** |

## 4. RESTRICTED CASH

At June 30, 2023, Tenaz held restricted cash of $17.0 million (€11.8 million) deposited with the operator as decommissioning security for Tenaz's interest in Netherlands assets, pursuant to decommissioning security agreements ("DSA") in place for the offshore Dutch North Sea licenses (December 31, 2022 - $59.1 million (€40.9 million) restricted cash).

Under the DSAs, decommissioning security is calculated annually and posted by parties to licenses where the future costs of decommissioning are higher than the estimated future cash flows from producing assets. On February 28, 2023, the security required pursuant to the DSAs decreased from €40.9 million to €11.8 million.

## 5. EXPLORATION AND EVALUATION

The following table reconciles Tenaz's E&E assets:

| ($000) | Total |
|---|---|
| Balance, December 31, 2022 | 14,706 |
| Additions | 916 |
| Foreign exchange | (11) |
| **Balance, June 30, 2023** | **15,611** |
| **Netherlands** | **15,611** |

E&E assets consist of the Company's projects that have yet to be established as technically feasible and commercially viable.

At June 30, 2023 and December 31, 2022, the Company had not identified any indicators of impairment.

## 6. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Tenaz's PP&E:

| ($000) | Developed and Producing Assets | Corporate Assets | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance, December 31, 2022 | 132,496 | 277 | 132,773 |
| Additions | 5,682 | 52 | 5,734 |
| Share-based compensation (Note 10) | 39 | - | 39 |
| Decommissioning cost additions and change in estimates (Note 9) | (1,366) | - | (1,366) |
| Foreign exchange | (49) | - | (49) |
| **Balance, June 30, 2023** | **136,802** | **329** | **137,131** |
| **Depletion, depreciation, amortization and impairment** | | | |
| Balance, December 31, 2022 | (28,332) | (166) | (28,498) |
| Depletion and depreciation | (8,320) | (19) | (8,339) |
| Foreign exchange | 35 | - | 35 |
| **Balance, June 30, 2023** | **(36,617)** | **(185)** | **(36,802)** |
| **Carrying amounts** | | | |
| As at December 31, 2022 | 104,164 | 111 | 104,275 |
| Canada | 61,645 | 111 | 61,756 |
| Netherlands | 42,519 | - | 42,519 |
| **As at June 30, 2023** | **100,185** | **144** | **100,329** |
| **Canada** | **63,496** | **144** | **63,640** |
| **Netherlands** | **36,689** | **-** | **36,689** |

Estimated future development costs of $108.5 million (December 31, 2022 – $111.7 million) associated with the development of the Company’s proved and probable crude oil and natural gas reserves were added to the Company’s net book value in the depletion and depreciation calculations. In the six months ended June 30, 2023, Tenaz capitalized costs directly attributable to property and equipment of $0.2 million which are included in the additions above (2022 – $0.1 million).

At June 30, 2023 and December 31, 2022, the Company had not identified any indicators of impairment.

## 7. INVESTMENT IN ASSOCIATE

Tenaz has the following associate at June 30, 2023 and December 31, 2022:

| **Name of associate** | **% Interest held** | **Jurisdiction** |
|---|---|---|
| Noordgastransport BV ("NGT") | 11.34% | Netherlands |

The following table reconciles the carrying amount of the investment in associate:

| ($000) | **Total** |
|---|---|
| Balance, December 31, 2022 | 12,591 |
| Income from associate | 1,818 |
| Dividend | (3,002) |
| Foreign exchange | (27) |
| **Balance, June 30, 2023** | **11,380** |

Summarized financial information in respect of NGT includes:

| **As at**<br>($million) | **June 30**<br>**2023** | December 31<br>2022 |
|---|---|---|
| Total assets | **168** | 184 |
| Total liabilities | **(129)** | (133) |
| Net assets | **39** | 51 |
| Tenaz's share of net assets | **4** | 6 |

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| ($million) | **2023** | 2022 | **2023** | 2022 |
| Total revenue | **21** | 19 | **40** | 39 |
| Net income | **7** | 10 | **15** | 15 |
| Tenaz's share of net income | **1** | - | **2** | - |

As part of the acquisition of XTO Netherlands Ltd on July 3, 2023 (Note 14), Tenaz acquired an additional 10.1% of the equity shares of NGT.

## 8. BANK DEBT

Bank debt is comprised of the following:

| **As at**<br>($000) | **June 30**<br>**2023** | December 31<br>2022 |
|---|---|---|
| **Credit Facilities** | | |
| Operating Loan | **-** | 6,483 |
| Commercial Term Loan | **-** | 8,750 |
| EDC Term Loan | **-** | 6,250 |
| Total bank debt | **-** | 21,483 |

At June 30, 2023, Tenaz's credit facilities (the "Credit Facilities") with ATB Financial (the "Lender") consists of a revolving operating demand loan (the "Operating Loan") in the principal amount of up to $10.15 million (December 31, 2022 - $10.15 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 to be held on or before December 31, 2023.

On March 10, 2023, the following loans were repaid in full:

- a non-revolving facility in the principal amount of up to $8.75 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the "Commercial Term Loan"); and
- a non-revolving facility under Export Development Canada's Program in the principal amount of up to $6.25 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the "EDC Term Loan").

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 crude 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 $0.01 million, 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 1.00:1, 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.

At June 30, 2023, the Company was in compliance with all debt covenants. The working capital ratio as defined was 1.90:1 and the Company was compliant with the LMR covenant (8.40 at July 1, 2023).

## 9. DECOMMISSIONING LIABILITY

A reconciliation of the decommissioning liability is provided below:

| ($000) | |
|---|---|
| Balance, December 31, 2022 | 30,435 |
| Additions | 11 |
| Changes in abandonment timing and costs | (1,797) |
| Settled | (542) |
| Accretion | 2,236 |
| Changes in discount rates | 420 |
| Foreign exchange | (47) |
| **Balance, June 30, 2023** | **30,716** |
| **Canada** | **1,995** |
| **Netherlands** | **28,721** |

Tenaz calculated the present value of the decommissioning liability using a credit-adjusted risk-free rate, calculated using a credit spread of 9.7% as at June 30, 2023 (December 31, 2022 – 11.8%) added to risk-free rates based on long-term, risk-free government bonds. Tenaz's credit spread is determined using the Company's expected cost of borrowing at the end of the reporting period.

Tenaz has estimated the decommissioning liability based on current cost estimates of $61.1 million (December 31, 2022 - $61.3 million) with the majority of costs anticipated to be incurred between 2024 and 2036. Current cost estimates are inflated to the estimated time of abandonment using inflated cost estimates of $74.2 million (December 31, 2022 - $75.2 million).

The country specific rates used as inputs to inflate cost estimates and discount the obligations were as follows:

| | **June 30, 2023** | December 31, 2022 |
|---|---|---|
| **Risk-free rates** | | |
| Canada | **3.1%** | 3.3% |
| Netherlands | **2.7%** | 2.9% |
| **Inflation rates** | | |
| Canada | **1.7%** | 1.4% |
| Netherlands | **2.4%** | 2.9% |

## 10. SHARE CAPITAL

### 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.

### Issued and outstanding

| | **Number of Common Shares** | **Amount ($000)** |
|---|---|---|
| Balance, December 31, 2022 | 28,093,174 | 63,831 |
| Normal course issuer bid | (715,600) | (1,633) |
| **Balance, June 30, 2023** | **27,377,574** | **62,198** |

*Normal Course Issuer Bid ("NCIB")*

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a NCIB. The NCIB allows 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 contracted an automatic share purchase plan ("ASPP") with National Bank Financial which allows for continued and consistent purchases of Common Shares at pre-determined levels. The ASPP allows 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.

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

| ($000, except as noted) | **Six months ended June 30 2023** | Year ended December 31 2022 |
|---|---|---|
| Share repurchase activities (number of Common Shares) | | |
| Shares repurchased | **(715,600)** | (454,900) |
| Amounts charged to: | | |
| Share capital | **(1,633)** | (1,035) |
| Deficit | **23** | 281 |
| Share repurchase cost | **(1,610)** | (754) |
| Average cost per share ($) | **2.25** | 1.66 |

**Long-term 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 June 30, 2023 is presented below:

| | **Number of Stock Options** | **Weighted Average Exercise Price ($)** |
|---|---|---|
| Balance, December 31, 2022 | 1,530,500 | 2.70 |
| Forfeited | (5,500) | 3.86 |
| **Balance, June 30, 2023** | **1,525,000** | **2.70** |

The range of exercise prices for stock options outstanding and exercisable under the plan at June 30, 2023 is as follows:

| **Exercise Prices** | **Stock Options Outstanding** | | | **Stock Options Exercisable** | | |
|---|---|---|---|---|---|---|
| | **Quantity** | **Remaining contractual life (years)** | **Weighted Average Exercise Price ($)** | **Quantity** | **Remaining contractual life (years)** | **Weighted Average Exercise Price ($)** |
| **$2.70** | **1,525,000** | **3.4** | **2.70** | **508,700** | **3.4** | **2.70** |

***Tenaz Incentive Plan***

The Company can issue share-based long-term incentives pursuant to the Tenaz Incentive Plan (the "TIP") implemented in 2022. The TIP is administered by the Board of Directors or a committee of the Board. Directors, officers, employees and independent contractors of the Company and/or its affiliates (collectively, "Service Providers") are eligible to receive 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).

The following table summarizes the number of awards under the TIP:

| | Number of TIP Awards | | | |
|---|---|---|---|---|
| | **PSUs** | **RSUs** | **DSUs** | **Total** |
| Balance, December 31, 2022 | 179,500 | - | - | 179,500 |
| Granted | 830,000 | 65,000 | 42,500 | 937,500 |
| Forfeited | (1,500) | - | - | (1,500) |
| **Balance, June 30, 2023** | 1,008,000 | 65,000 | 42,500 | 1,115,500 |

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.

During the three and six months ended June 30, 2023, the Company issued 830,000 PSUs to officers and employees of the Company, 42,500 DSUs to Directors of the Company and 65,000 RSUs to Directors and employees of the Company with a grant date fair value of $2.10 per award using a 5-day volume weighted average price. The PSUs and RSUs vest over a period of one to three years and DSUs vest immediately upon granting.

At June 30, 2023, there were 97,257 Common Shares available for issuance under the TIP.

***Share-based Compensation***

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| ($000) | **2023** | 2022 | **2023** | 2022 |
| Share-based compensation: | | | | |
| Stock Option Plan | **167** | 344 | **325** | 681 |
| TIP | **365** | - | **414** | - |
| Total share-based compensation | **532** | 344 | **739** | 681 |
| Capitalized share-based compensation (Note 6) | **(23)** | (14) | **(39)** | (39) |
| Share-based compensation expensed | **509** | 330 | **700** | 642 |

**Weighted average Common Shares**

| ($000, except Common Shares and per share amounts) | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 |
| **Net income (loss) – Basic and diluted** | **(757)** | 769 | **2,125** | 4,266 |
| **Weighted average Common Shares** | | | | |
| Basic | **27,555,352** | 28,480,821 | **27,734,975** | 28,469,179 |
| Diluted | **28,308,001** | 29,241,047 | **28,426,603** | 28,913,764 |
| **Net income (loss) per share** | | | | |
| Basic | **(0.03)** | 0.03 | **0.08** | 0.15 |
| Diluted | **(0.03)** | 0.03 | **0.07** | 0.15 |

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. Diluted net loss per share is calculated using the basic weighted average Common Shares.

For the three and six months ended June 30, 2023, 1,525,000 outstanding stock options and no outstanding TIP awards were excluded from the weighted average number of diluted Common Shares as they were anti-dilutive (2022 – 1,653,500 stock options were excluded).

## 11. FINANCIAL INSTRUMENTS

At June 30, 2023, Tenaz's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, derivative instruments, accounts payable and accrued liabilities and lease liabilities.

### 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.

***Credit Risk***

The majority of the credit exposure on accounts receivable at June 30, 2023, pertains to revenue for accrued June 2023 production volumes and receivables from joint interest partners. Tenaz primarily transacts with four Canadian and three Dutch crude oil and natural gas purchasers. The Canadian and Dutch customers typically remit amounts to Tenaz by the 25$^{th}$ day of the month following production. At June 30, 2023, 71% of total outstanding accounts receivable pertains to the top 7 purchasers. As at June 30, 2023, receivables for revenue were $3.0 million and joint venture receivables were $0.5 million, which are included in accounts receivable (December 31, 2022 - $9.7 million). For the six months ended June 30, 2023, the Company received approximately 99% of its revenue from 7 purchasers (2022 – 88% of its revenue from 4 purchasers).

At June 30, 2023 and December 31, 2022, the Company's trade receivables have been aged as follows:

| **As at**<br>($000) | **June 30**<br>**2022** | December 31<br>2022 |
|---|---|---|
| Current | **4,020** | 10,081 |
| 31 – 60 days | **117** | 169 |
| 61 – 90 days | **20** | - |
| > 90 days | **15** | 1 |
| Allowance for doubtful accounts | **-** | - |
| Total | **4,172** | 10,251 |

When determining whether amounts that are past due are collectible, management assesses the creditworthiness 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 Tenaz will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through its capital management (Note 12) and an actively managed operating and capital expenditure budgeting process.

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. At June 30, 2023, Tenaz had a current tax liability of $19.0 million related to the Netherlands operations, which is net of instalments paid to the Dutch Tax Authority. The $19.0 million liability consists of $2.2 million related to corporate income tax ("CIT") and state profit share ("SPS") along with $16.8 million owing as part of the temporary solidarity contribution imposed by the European Union. The Solidarity contribution is a tax on excess profits of energy companies due to the high price environment in 2022 and not payable until May 2024.

As at June 30, 2023, the Company was holding $24.6 million in cash and cash equivalents, $17.0 million (€11.8 million) in restricted cash and had $10 million available on undrawn Credit Facilities (Note 8).

Management believes that funds available from its credit and working capital facilities are adequate to settle the Company's financial liabilities and obligations as they come due.

As at June 30, 2023, the Company was in compliance with all its bank debt covenants.

***Market Risk***

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*

At June 30, 2023, Tenaz held the following crude oil and natural gas financial contracts:

| Period | Commodity | Type of Contract | Quantity | Pricing Point | Contract Price | Fair Value at June 30 2023 ($000) |
|---|---|---|---|---|---|---|
| **WCS vs WTI Basis Swap Contracts** | | | | | | |
| Jul 1/23─Dec 31/23 | Crude Oil | Swap | 200 bbls/d | WCS | WTI less USD $16.50 | (157) |
| **Natural Gas Swap Contracts** | | | | | | |
| Jul 1/23─Oct 31/23 | Natural Gas | Swap | 500 GJ/d | AECO 5A | CAD $2.85 | 37 |
| **Net derivative instrument liability** | | | | | | **(120)** |

If the forward price curves for WTI and AECO 5A increase or decrease by 10%, it is estimated that Tenaz's net income would change by approximately $0.03 million. The sensitivity is hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The result of the sensitivity is not predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

*Foreign currency risk*

At June 30, 2023, Tenaz held the following foreign currency swaps (December 31, 2022 - $0.4 million liability):

| Period | Type of Contract | Notional Amount | Notional Amount | Average Rate | Fair Value at June 30 2023 ($000) |
|---|---|---|---|---|---|
| **Foreign Currency Swaps** | | | | | |
| July 2023 | Swap | EUR 8,500,000 | CAD 12,288,705 | 1.44573 | 8 |
| July 2023 | Swap | EUR (6,500,000) | CAD (9,568,000) | 1.47200 | (177) |
| **Derivative instrument liability** | | | | | **(169)** |

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

At June 30, 2023, Tenaz had not drawn on its interest-bearing credit facilities and had no risk management contracts that would be affected by interest rates in place.

### Derivative instruments

The table below summarizes the fair values as at June 30, 2023 and December 31, 2022 on the balance sheet:

| ($000) | **Commodity** | **Foreign currency** | **June 30 2023** |
|---|---|---|---|
| Derivative instrument assets | 37 | 8 | **45** |
| Derivative instrument liabilities | (157) | (177) | **(334)** |
| Net financial derivative instrument asset (liability) | (120) | (169) | **(289)** |

| ($000) | **Commodity** | **Foreign currency** | **December 31 2022** |
|---|---|---|---|
| Derivative instrument assets | 44 | - | 44 |
| Derivative instrument liabilities | (92) | (428) | (520) |
| Net financial derivative instrument asset (liability) | (48) | (428) | (476) |

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

| | **Three months ended June 30** | | **Six months ended June 30** | |
|---|---|---|---|---|
| ($000) | **2023** | 2022 | **2023** | 2022 |
| **Realized gain (loss)** | | | | |
| Commodity contracts | **(10)** | (853) | **172** | (1,824) |
| Foreign currency swaps | **-** | - | **(91)** | - |
| Realized gain (loss) on derivatives | **(10)** | (853) | **81** | (1,824) |
| **Unrealized gain (loss)** | | | | |
| Commodity contracts | **(90)** | 623 | **(72)** | 600 |
| Foreign currency swaps | **(169)** | 295 | **259** | 295 |
| Unrealized gain (loss) on derivatives | **(259)** | 918 | **187** | 895 |
| Gain (loss) on derivatives | **(269)** | 65 | **268** | (929) |

## 12. 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 (Note 11). 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 June 30, 2023 and December 31, 2022 is summarized as follows:

| ($000) | **June 30 2023** | December 31 2022 |
|---|---|---|
| Current assets | **46,967** | 72,317 |
| Current liabilities | **(30,162)** | (58,749) |
| Net current assets | **16,805** | 13,568 |
| Exclude fair value of derivative instruments | **289** | 476 |
| Adjusted working capital | **17,094** | 14,044 |

The Company has not paid or declared any dividends since the date of incorporation. Details of the Company's NCIB are described in Note 10. Details of the Company's restricted cash pertaining to decommissioning security for Tenaz's Netherlands assets are described in Note 4.

## 13. COMMITMENTS AND CONTINGENCIES

The Company's bank debt commitments at June 30, 2023 are described in Note 8.

The Company operates in a regulatory and commercial environment that exposes it to regulatory, contractual and litigation risks. As a result, the Company is involved in certain disputes and legal proceedings, including litigation, arbitration and regulatory investigations. Such cases are subject to many uncertainties, and the outcomes are often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reliably estimated. The probability of a material outflow due to any known legal action is considered by management to be remote.

## 14. SUBSEQUENT EVENTS

### Closing of Netherlands acquisition

On July 3, 2023, Tenaz acquired 100% of the shares (the "Acquisition") of XTO Netherlands Ltd. from XH LLC, a wholly owned subsidiary of ExxonMobil Corporation. The Acquisition increases Tenaz's existing working interest in certain producing licenses in the Dutch sector of the North Sea. Tenaz's interest in each of the L10/L11a, K9, K12 and N7b producing license blocks increases by approximately 89%. Following the Acquisition, Tenaz's interest in the producing licenses increased to 21.4% for the L10/L11a, 15.9% for the K9a and K9b, 12.3% for the K9c, 10.7% for the K12 and 17.9% for the N7b licenses. Tenaz's interest in the undeveloped F10, F11a, F17, and F18 licenses remains unchanged as a result of the Acquisition, as does Tenaz's interest in the producing L10-O field. In addition, Tenaz acquired an additional 10.1% of the equity shares of NGT (Note 7), bringing Tenaz's interest to 21.4% of NGT.

Tenaz did not issue equity in connection with the Acquisition. No consideration was payable to the vendor on close, but remains subject to change upon finalization of working capital and other customary adjustments.

## 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, Engineering

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