

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

As at

(\$000)	Note	September 30, 2021	December 31, 2020
ASSETS			
Current assets			
Restricted cash	3	24,500	-
Accounts receivable	10	1,648	1,086
Prepaid expenses and deposits		376	221
		26,524	1,307
Exploration and evaluation		-	260
Property and equipment	4	43,338	32,872
Total assets		69,862	34,439
LIABILITIES			
Current liabilities			
Bank debt	5	3,133	3,985
Accounts payable and accrued liabilities		2,294	1,179
Subscription receipts obligation	3	24,500	-
Current portion of lease liabilities	6	59	50
Current portion of decommissioning liability	7	-	25
Financial instruments	10	1,795	369
		31,781	5,608
Lease liabilities	6	119	156
Decommissioning liability	7	5,466	5,777
Total liabilities		37,366	11,541
SHAREHOLDERS' EQUITY			
Share capital	8	37,712	37,712
Contributed surplus		7,534	7,249
Deficit		(12,750)	(22,063)
Total shareholders' equity		32,496	22,898
Total liabilities and shareholders' equity		69,862	34,439
Subsequent events	3,5		

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 September 30		Nine months ended September 30	
		2021	2020	2021	2020
REVENUE					
Petroleum and natural gas sales	9	4,717	2,526	12,377	5,956
Royalties		(532)	(222)	(1,382)	(434)
Petroleum and natural gas revenue		4,185	2,304	10,995	5,522
Gain (loss) on financial instruments	10	(763)	(331)	(3,239)	1,831
		3,422	1,973	7,756	7,353
EXPENSES					
Operating		1,391	1,171	3,787	3,201
Transportation		168	212	559	592
General and administrative		413	482	1,288	1,196
Share-based compensation	8	63	67	240	241
Interest and financing charges		66	103	265	178
Depletion, depreciation and amortization	4	1,176	901	3,319	2,980
Impairment (reversal)	4	(10,500)	-	(10,170)	34,750
Accretion of decommissioning liability	7	26	16	77	47
Gain on property dispositions		-	(619)	(922)	(1,224)
		(7,197)	2,333	(1,557)	41,961
Net income (loss) before taxes		10,619	(360)	9,313	(34,608)
Deferred tax recovery		-	-	-	(1,472)
Net income (loss) and comprehensive income (loss)		10,619	(360)	9,313	(33,136)
Net income (loss) per share	8				
Basic and Diluted		0.10	-	0.09	(0.30)

See accompanying notes to the interim condensed consolidated financial statements.

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

For the periods ended September 30

(\$000)	Note	Share capital	Performance warrants	Contributed surplus	Retained earnings (deficit)	Total Equity
Balance, December 31, 2019		37,712	2,517	4,377	250	44,856
Share-based compensation expense	8	-	103	138	-	241
Share-based compensation capitalized	8	-	22	40	-	62
Expiry of performance warrants		-	(2,642)	2,642	-	-
Net loss for the period		-	-	-	(33,136)	(33,136)
Balance, September 30, 2020		37,712	-	7,197	(32,886)	12,023
Balance, December 31, 2020		37,712	-	7,249	(22,063)	22,898
Share-based compensation expense	8	-	-	240	-	240
Share-based compensation capitalized	8	-	-	45	-	45
Net income for the period		-	-	-	9,313	9,313
Balance, September 30, 2021		37,712	-	7,534	(12,750)	32,496

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(\$000)	Note	Three months ended September 30		Nine months ended September 30	
		2021	2020	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES					
Net income (loss) for the period		10,619	(360)	9,313	(33,136)
Items not involving cash:					
Deferred tax recovery		-	-	-	(1,472)
Depletion, depreciation and amortization	4	1,176	901	3,319	2,980
Impairment	4	(10,500)	-	(10,170)	34,750
Accretion of decommissioning liability	7	26	16	77	47
Share-based compensation	8	63	67	240	241
Gain on property dispositions		-	(619)	(922)	(1,224)
Unrealized (gain) loss on financial instruments	10	(35)	373	1,426	(502)
Change in non-cash working capital	12	633	127	289	516
		1,982	505	3,572	2,200
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES					
Change in bank debt	5	133	(929)	(852)	4,001
Repayment of principal relating to lease liabilities		(10)	(9)	(28)	(26)
Change in non-cash working capital	12	(99)	-	(99)	-
		24	(938)	(979)	3,975
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES					
Exploration and evaluation asset expenditures		-	-	(80)	(3,990)
Property and equipment expenditures		(2,614)	(469)	(4,471)	(3,779)
Property dispositions		-	875	1,750	1,746
Change in non-cash working capital	12	172	27	208	(294)
		(2,442)	433	(2,593)	(6,317)
CHANGE IN CASH AND CASH EQUIVALENTS		(436)	-	-	(142)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		436	-	-	142
CASH AND CASH EQUIVALENTS, END OF PERIOD		-	-	-	-
Cash interest paid		66	103	265	178

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

As at and for the three and nine months ended September 30, 2021 and 2020

1. REPORTING ENTITY

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

On August 30, 2021 the Company entered into a definitive reorganization and investment agreement (the “**Reorganization**”) which provided for a brokered and non-brokered private placement, appointment of a new management team and board of directors, and a future rights offering to shareholders (note 3).

On October 7, 2021, shareholders of the Company approved the Reorganization, agreed to rename the Company from “Altura Energy Inc.” to “Tenaz Energy Corp.” and approved the Company to consolidate the number of common shares, provided that the consolidation shall not be greater than on a ten for one basis.

On October 8, 2021, the Company completed the Reorganization and the name change to Tenaz Energy Corp. was affected through an amalgamation on October 15, 2021. The future rights offering and the share consolidation are expected to be completed in December 2021.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These interim condensed consolidated financial statements (the “**Financial Statements**”) have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”) applicable to the preparation of interim financial statements, including International Accounting Standard 34, “Interim Financial Reporting” (“**IAS 34**”), and have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2020. In the opinion of management, these Financial Statements contain all adjustments necessary to present fairly Tenaz’s financial position as at September 30, 2021 and the results of its operations and cash flows for the three and nine months ended September 30, 2021 and 2020. Certain information and disclosures normally included in the notes to the audited consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these Financial Statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

These Financial Statements were approved by the Board of Directors on November 17, 2021.

(b) Basis of Measurement and Principles of Consolidation

These Financial Statements have been prepared on a historical cost basis and include the accounts of Tenaz and its wholly-owned subsidiary. All inter-entity transactions have been eliminated.

(c) Functional and Presentation Currency

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

3. RESTRICTED CASH, SUBSCRIPTION RECEIPTS OBLIGATION AND SUBSEQUENT EVENTS

On August 30, 2021, the Company entered into an investment agreement with a group of investors which provided for, among other things: (i) a non-brokered private placement of units (“**Units**”) of the Company (“**Non-Brokered Private Placement**”) and a brokered private placement of subscription receipts (“**Subscription Receipts**”) of the Company (“**Brokered Private Placement**” and together with the Non-Brokered Private Placement, the “**Private Placements**”) for aggregate gross proceeds of \$29.5 million; (ii) a reconstitution of the Board and appointment of a new management team (the “**Change of Management**”); and (iii) a change of the Company’s name from “Altura Energy Inc.” to “Tenaz Energy Corp.”

a) Restricted Cash and Subscription Receipts Obligation

On September 22, 2021, the Company completed the Brokered Private Placement pursuant to which 136,112,000 Subscription Receipts were issued at a price of \$0.18 per Subscription Receipt for gross proceeds of \$24.5 million. The gross proceeds from the Brokered Private Placement were held in escrow pending completion of the Change of Management and the Non-Brokered Private Placement.

As the Company had an obligation to either issue the equivalent number of common shares or refund the Subscription Receipts proceeds as then held in trust, the Company reported a Subscription Receipts obligation and restricted cash of \$24.5 million at September 30, 2021.

b) Subsequent events

On October 8, 2021, the Company completed the Change of Management and the reconstitution of the Board.

On October 8, 2021, the Company completed the Non-Brokered Private Placement pursuant to which 27,778,000 Units were issued at a price of \$0.18 per Unit for gross proceeds of \$5.0 million. Each Unit was comprised of one common share (“**Common Share**”) and one warrant (“**Warrant**”) of the Company, with each Warrant entitling the holder thereof to purchase one Common Share at a price of \$0.18 per Common Share from a period of five years from the issuance date, subject to certain terms and conditions. One-third of the Warrants will vest and become exercisable upon the 20-day VWAP of the Common Shares (the “**Market Price**”) equaling or exceeding \$0.25 per Common Share, an additional one-third upon the Market Price equaling or exceeding \$0.315 per Common Share and a final one-third upon the Market Price equaling or exceeding \$0.36 per Common Share.

Immediately following the completion of the Change of Management and the Non-Brokered Private Placement, the Company issued 136,112,000 Common Shares pursuant to the conversion of the 136,112,000 Subscription Receipts previously issued by the Company in connection with the Brokered Private Placement, and \$24.5 million in gross proceeds was released from escrow.

The Reorganization provided that the Company shall conduct a rights (“**Rights**”) offering (the “**Rights Offering**”) pursuant to which each shareholder of Common Shares on November 15, 2021 (the “**Record Date**”) will receive one (1) Right for each Common Share held by such shareholder. Each eight (8) Rights will entitle the holder to subscribe for one Common Share upon payment of a subscription price of \$0.18 per Common Share. The Common Shares commenced trading on the TSXV on an ex-rights basis at the opening of business on November 12, 2021. This means that Common Shares purchased on or following November 12, 2021 are not entitled to receive Rights under the Rights Offering. The Rights Offering will expire at 4:00 p.m. (Calgary time) on December 13, 2021, after which time unexercised Rights will be void and of no value.

4. PROPERTY AND EQUIPMENT

The following table reconciles Tenaz's property and equipment:

Cost (\$000)	Developed and Producing Assets	Administrative Assets	Total
Balance, December 31, 2019	66,925	193	67,118
Additions	3,778	10	3,788
Dispositions	(2,090)	-	(2,090)
Change in decommissioning costs	610	-	610
Balance, December 31, 2020	69,223	203	69,426
Additions	4,512	4	4,516
Dispositions	(2,139)	-	(2,139)
Change in decommissioning costs	(247)	-	(247)
Balance, September 30, 2021	71,349	207	71,556
Depletion, depreciation and impairment			
(\$000)			
Balance, December 31, 2019	(15,465)	(79)	(15,544)
Depletion, depreciation and amortization	(3,814)	(29)	(3,843)
Dispositions	1,410	-	1,410
Impairment	(18,577)	-	(18,577)
Balance, December 31, 2020	(36,446)	(108)	(36,554)
Depletion, depreciation and amortization	(3,301)	(18)	(3,319)
Dispositions	1,155	-	1,155
Impairment reversal (note 4)	10,500	-	10,500
Balance, September 30, 2021	(28,092)	(126)	(28,218)
Carry amounts			
(\$000)			
As at December 31, 2020	32,777	95	32,872
As at September 30, 2021	43,257	81	43,338

Estimated future development costs of \$91.6 million (December 31, 2020 – \$88.9 million) associated with the development of the Company's proved and probable oil and gas reserves were added to the Company's net book value in the depletion and depreciation calculation. Tenaz capitalized cash and non-cash administrative costs directly attributable to property and equipment of \$79,000 and \$227,000 in the three and nine months ended September 30, 2021 (September 30, 2020 – \$72,000 and \$237,000), respectively.

Impairment

September 30, 2021

At September 30, 2021, there were indicators of impairment reversal identified in Tenaz's Leduc-Woodbend CGU as a result of, amongst other factors considered by management, improved forecasted commodity prices for heavy crude oil since the last impairment test performed on December 31, 2020. Tenaz has only one CGU. An impairment test was performed on D&P assets and the Company recognized an impairment reversal of \$10.5 million related to its Leduc-Woodbend CGU due to the estimated recoverable amount of \$43.3 million exceeding the carrying value.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2020 reserve report prepared by its independent third-party reserve evaluators, updated using forecasted oil and gas commodity prices at October 1, 2021, revised forecasted future development cost assumptions, operating cost assumptions, 2021 asset dispositions and timing of forecasted future development costs and removed production from January 1, 2021 to September 30, 2021, as updated by the Company's internal reserve evaluator. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the

Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on management's estimates as at September 30, 2021 which were established principally on relevant land sales. The discount rates used in the valuation ranged from 10% to 30%, with an overall weighted average discount rate of approximately 21%.

The following table details the forecasted oil and gas commodity pricing used in estimating the recoverable amount of Tenaz's Leduc-Woodbend CGU at September 30, 2021:

	WTI Crude Oil (\$US/bbl) ^(1,2)	Western Canadian Select Crude Oil (\$CAD/bbl) ^(1,2)	Alberta AECO Gas (\$CAD/mmbtu) ^(1,2)	Foreign Exchange (\$US/\$CAD) ⁽¹⁾
2021 (3 mos)	75.17	79.05	4.57	0.795
2022	71.00	73.00	3.83	0.798
2023	67.77	67.92	3.26	0.800
2024	65.57	65.11	2.99	0.800
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.80

(1) Source: Three Consultants' average, McDaniel & Associates Consultants, GLJ Petroleum Consultants, and Sproule Associates price forecasts, effective October 1, 2021.

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

The following table demonstrates the sensitivity of the impairment reversal amount at September 30, 2021 using reasonable changes in significant assumptions inherent in the estimate:

(\$000)	Increase in discount rate of 1%	Decrease in discount rate of 1%	Decrease in forecasted combined average realized prices of 5%	Increase in forecasted combined average realized prices of 5%
Impairment reversal increase (decrease)	(2,904)	1,255	(5,975)	5,161

2020 Impairment

At March 31, 2020, the Company determined there to be indicators of impairment in its Leduc-Woodbend CGU due to the potential long-term impact of the COVID-19 pandemic which caused a significant decline in forecasted oil benchmark prices and due to a decline in Tenaz's market capitalization in the first quarter of 2020. In the nine months ended September 30, 2020, the Company recognized an impairment charge of \$30.0 million related to its Leduc-Woodbend CGU due to the carrying value exceeding the estimated recoverable amount. Included in the impairment charge was \$0.2 million related to impairment of the Company's ROU assets.

At December 31, 2020, indicators of impairment reversal were identified in Altura's Leduc-Woodbend CGU as a result of, amongst other factors considered by management, improved forecasted commodity prices for heavy crude oil since the March 31, 2020 impairment test. An impairment test was performed on D&P assets and the Corporation recognized an impairment reversal of \$11.2 million in the fourth quarter of 2020.

The initial impairment expense of \$30.0 million on D&P and ROU assets recognized at March 31, 2020, net of the impairment recovery of \$11.2 million at December 31, 2020 on D&P assets, resulted in a net impairment expense of \$18.8 million recognized for the year ended December 31, 2020.

5. CREDIT FACILITIES

At September 30, 2021, the Company had a revolving operating demand loan (the “**Operating Loan**”) with a Canadian bank (the “**Lender**”) with a maximum borrowing limit of \$4.0 million. Additionally, Tenaz had a \$3.0 million term loan from its Lender through the Business Credit Availability Program (“**BCAP**”) Guarantee from the Export Development Bank of Canada (“**EDC**”) (the “**Term Loan**”), providing \$7.0 million of total credit facilities.

Tenaz's bank debt at September 30, 2021 and December 31, 2020 is summarized as follows:

(\$000)	September 30, 2021	December 31, 2020
Operating Loan	133	985
Term Loan	3,000	3,000
Bank debt	3,133	3,985

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

The Operating Loan and Term Loan (collectively 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.

On October 18, 2021, the Company repaid and canceled the Term Loan. There was no change to the Operating Loan

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

Tenaz is subject to certain reporting and financial covenants including:

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

As at September 30, 2021, the working capital ratio as defined was 1.13:1 (December 31, 2020 – 5.00:1) and the Company was compliant with the LLR covenant (5.99 at November 17, 2021). In August 2021, Tenaz's Lender waived the hedging covenant for the quarter ended September 30, 2021, relating to maintaining hedge agreements for the succeeding nine-month period.

As at September 30, 2021, \$3.1 million (December 31, 2020 - \$4.0 million) was drawn on the Credit Facilities and the Company had outstanding letters of credit for \$150,000 (December 31, 2020 - \$50,000).

On October 18, 2021, the Company repaid and canceled the Term Loan. There was no change to the Operating Loan.

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

6. LEASE LIABILITIES

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

(\$000)	Total
Balance, December 31, 2019	242
Lease interest	12
Total cash outflow	(48)
Balance, December 31, 2020	206
Lease interest	8
Total cash outflow	(36)
Balance, September 30, 2021	178

Tenaz has the following future commitments:

(\$000)	As at September 30, 2021
October 2021–December 2021	15
2022	61
2023–2024	119
Total lease payments	195
Impact of discounting	(17)
Lease liabilities	178
Payments due within one year	59
Payments due beyond one year	119

7. DECOMMISSIONING LIABILITY

The Company's decommissioning liability results from its net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Tenaz estimates the total undiscounted and un-escalated amount of cash flows required to settle its decommissioning obligations as at September 30, 2021 to be approximately \$5.3 million (December 31, 2020 – \$5.4 million) with the majority of costs anticipated to be incurred between 2030 and 2041. A risk-free Government of Canada long-term bond discount rate of 2.0% (December 31, 2020 – 1.2%) and an inflation rate of 1.7% (December 31, 2020 – 1.5%) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

(\$000)	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	5,802	5,378
Additions	71	80
Liabilities disposed	(164)	(164)
Change in estimates ⁽¹⁾	(320)	634
Liabilities settled ⁽²⁾	-	(192)
Accretion	77	66
Balance, end of period	5,466	5,802
Expected to be incurred within one year	-	25
Expected to be incurred beyond one year	5,466	5,777

(1) The change in estimates is due to a change in the discount and inflation rates totaling a credit of \$386,000 (December 31, 2020 - \$625,000) offset by a change in abandonment and remediation cost estimates and future abandonment dates totaling \$66,000 (December 31, 2020 - \$9,000).

(2) For the year ended December 31, 2020, \$192,000 of obligations were indirectly settled through a government subsidy, whereby third-party service providers were reimbursed on behalf of Tenaz. Tenaz recorded the \$192,000 government subsidy in other income for the year ended December 31, 2020.

8. SHARE CAPITAL

(a) Authorized:

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

(b) Issued and outstanding:

	Number of common shares	Amount (\$000)
Balance, December 31, 2019, December 31, 2020 and September 30, 2021	108,920,974	37,712

(c) Stock options:

The Company has a stock option plan for directors, employees and service providers. Under the plan, options may be granted to purchase up to 10% of the outstanding shares of Tenaz and the maximum term of options granted is five years. The Board of Directors determines the vesting schedule at the time of grant. For the June 2021 stock option grant, options vest as to one-third immediately, one-third on the first anniversary and one-third on the second anniversary. As at September 30, 2021 the Company may grant up to 10,892,097 stock options.

No stock options were exercised in the three and nine months ended September 30, 2021 and 2020.

A summary of the Company's outstanding stock options at September 30, 2021 is presented below:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2019	9,770,000	0.35
Expired	(3,250,000)	0.34
Forfeited	(435,000)	0.34
Balance, December 31, 2020	6,085,000	0.36
Granted	4,800,000	0.21
Expired	(350,000)	0.29
Forfeited	(1,570,000)	0.36
Balance, September 30, 2021	8,965,000	0.28

The Company's share-based compensation relating to stock options, fair valued on the date of grant using a Black Scholes model, for the three and nine months ended September 30, 2021 was \$83,000 and \$285,000 (September 30, 2020 – \$55,000 and \$178,000) of which \$20,000 and \$45,000 was capitalized (September 30, 2020 – \$5,000 and \$40,000), respectively.

The range of exercise prices for stock options and the fair value of options granted in 2021 are disclosed in the Company's Q2 2021 financial statements.

(d) Weighted average common shares:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Basic	108,920,974	108,920,974	108,920,974	108,920,974
Diluted	108,920,974	108,920,974	108,920,974	108,920,974

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 performance warrants plus unamortized share-based compensation expense would be used to buy back common shares at the average market price for the period.

For the three and nine months ended September 30, 2021, 8,965,000 stock options were excluded from the weighted average number of common shares as they were anti-dilutive (September 30, 2020 – 9,335,000 stock options).

9. REVENUE

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

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

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

(\$000)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Heavy crude oil	3,325	1,893	9,071	4,314
Light crude & medium crude oil	-	63	-	78
Natural gas	1,018	478	2,503	1,280
Natural gas liquids	374	92	803	284
Petroleum and natural gas sales	4,717	2,526	12,377	5,956

As at September 30, 2021, receivables for revenue were \$1,516,000, which are included in accounts receivable (December 31, 2020 - \$857,000).

10. FINANCIAL INSTRUMENTS

Credit Risk

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

The majority of the credit exposure on accounts receivable at September 30, 2021, pertain to revenue for accrued September 2021 production volumes and receivables from joint interest partners. Tenaz primarily transacts with four oil and natural gas marketing companies. The marketing companies typically remit amounts to Tenaz by the 25th day of the month following production. At September 30, 2021, 31%, 18%, 16% and 14% of total outstanding accounts receivable pertains to four marketing companies. Tenaz did not have any other customers from which it had outstanding accounts receivable greater than 10% of the total outstanding balance at September 30, 2021. For the nine months ended September 30, 2021, the Company received approximately 46%, 28%, 24% and 10% of its revenue from four marketing companies (September 30, 2020 – 28%, 20%, 16%, 12% and 12% of its revenue from five marketing companies).

At September 30, 2021 and December 31, 2020, the Company's trade receivables have been aged as follows:

As at (\$000)	September 30, 2021	December 31, 2020
Current	1,645	917
31 – 60 days	-	44
61 – 90 days	-	116
> 90 days	3	9
Allowance for doubtful accounts	-	-
Total	1,648	1,086

When determining whether amounts that are past due are collectible, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Tenaz's accounts receivable > 90 days relates to amounts owing from a joint interest partner and are considered collectible.

Commodity Price Risk

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

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

(\$000)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Realized gain (loss) on financial instruments	(798)	42	(1,813)	1,329
Unrealized gain (loss) on financial instruments	35	(373)	(1,426)	502
Gain (loss) on financial instruments	(763)	(331)	(3,239)	1,831

At September 30, 2021, Tenaz held the following crude oil and natural gas contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at September 30, 2021 (\$000)
WCS Swap Contracts						
Oct 1/21–Dec 31/21	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD \$38.70	(748)
Jan 1/22–Jan 31/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD \$51.00	(164)
Feb 1/22–Feb 28/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD \$59.70	(97)
Mar 1/22–Mar 31/22	Crude Oil	Fixed Swap	200 bbls/d	WCS	CAD \$57.50	(116)
Apr 1/22–Apr 30/22	Crude Oil	Fixed Swap	175 bbls/d	WCS	CAD \$65.75	(54)
May 1/22–May 31/22	Crude Oil	Fixed Swap	175 bbls/d	WCS	CAD \$65.50	(54)
WCS Differential Swap Contracts						
Oct 1/21–Mar 31/22	Crude Oil	Fixed Swap	150 bbls/d	WCS-WTI Differential	CAD (\$17.95)	(74)
Apr 1/22–Apr 30/22	Crude Oil	Fixed Swap	175 bbls/d	WCS-WTI Differential	CAD (\$17.00)	(12)
May 1/22–May 31/22	Crude Oil	Fixed Swap	175 bbls/d	WCS-WTI Differential	CAD (\$16.70)	(11)
WTI Put Options						
Oct 1/21–Mar 31/22	Crude Oil	Put Option ⁽¹⁾	150 bbls/d	WTI	CAD \$62.00	(30)
Apr 1/22–Apr 30/22	Crude Oil	Put Option ⁽²⁾	175 bbls/d	WTI	CAD \$62.00	(9)
May 1/22–May 31/22	Crude Oil	Put Option ⁽³⁾	175 bbls/d	WTI	CAD \$62.00	(7)
Natural Gas Swap Contracts						
Oct 1/21–Dec 31/21	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD \$2.545	(187)
Jan 1/22–Jan 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD \$2.720	(75)
Feb 1/22–Feb 28/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD \$3.058	(57)
Mar 1/22–Mar 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD \$2.790	(54)
Apr 1/22–Apr 30/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD \$2.680	(26)
May 1/22–May 31/22	Natural Gas	Fixed Swap	1,000 GJ/d	AECO 5A	CAD \$2.730	(20)
						(1,795)

(1) Includes a \$37,000 liability to the counterparty on this contract for the deferred premium of \$1.40 per barrel.

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

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

At September 30, 2021, the crude oil and natural gas contracts were fair valued with a liability of \$1,795,000 (December 31, 2020 - \$369,000 liability) recorded on the balance sheet.

11. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. The annual and updated budgets are approved by the Board of Directors.

The key measure that the Company utilizes in evaluating its capital structure is net debt to annualized funds flow from operations.

Annualized Funds Flow from Operations

Tenaz considers funds flow from operations to be a key measure of performance as it demonstrates the Company's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and to repay debt. Management believes that such a measure provides a useful assessment of Tenaz's business on a continuing basis by eliminating certain non-cash charges and actual settlements of decommissioning liabilities, the timing of which, in the opinion of management, is discretionary. Funds flow from operations is a non-GAAP measure and the underlying calculation is not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used.

Funds flow from operations for the third quarter of 2021 and fourth quarter of 2020 is calculated as follows:

(\$000)	Three months ended September 30, 2021	Three months ended December 31, 2020
Net income	10,619	10,823
Adjusted for the following non-cash items		
Other income	-	(192)
Depletion, depreciation and amortization	1,176	874
Impairment reversal	(10,500)	(11,190)
Accretion of decommissioning liability	26	19
Share-based compensation	63	45
Unrealized (gain) loss on financial instruments	(35)	439
Quarterly funds flow from operations	1,349	818
Annualized funds flow from operations	5,396	3,272

Net Debt

Management views net debt as a key industry benchmark and measure to assess the Company's financial position and liquidity. Net debt is a non-GAAP measure and the underlying calculation is not necessarily comparable or calculated in an identical manner to similarly titled measures of other companies where similar terminology is used.

Net debt as at September 30, 2021 and December 31, 2020 is summarized as follows:

(\$000)	September 30, 2021	December 31, 2020
Current assets	(26,524)	(1,307)
Current liabilities	31,781	5,608
Working capital deficit	5,257	4,301
Fair value of financial instruments	(1,795)	(369)
Net debt	3,462	3,932

Net debt to annualized funds flow from operations represents a measure of the time it is expected to take to pay off the debt if no further capital expenditures were incurred and if cash flow in the next year were equal to the amount in the most recent quarter annualized.

The Company monitors this ratio and endeavors to maintain it at, or below, 1:1 in a normalized commodity price environment. As shown below, the Company's ratio of net debt to annualized funds flow from operations decreased to 0.64:1 at September 30, 2021, from 1.20:1 at December 31, 2020.

	September 30, 2021	December 31, 2020
Net debt (\$000)	3,462	3,932
Annualized funds flow from operations (\$000)	5,396	3,272
Net debt to annualized funds flow from operations (times)	0.64	1.20

The Company has not paid or declared any dividends since the date of incorporation. In prior periods, net debt excluded the current portion of lease liabilities and current portion of decommissioning liabilities. Tenaz has changed the reporting of net debt to include the current portion of lease liabilities and current portion of decommissioning liabilities. There have been no other changes in the Company's approach to capital management in the nine months ended September 30, 2021.

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Provided by (used in):				
Accounts receivable	29	(93)	(562)	965
Prepaid expenses and deposits	(151)	(143)	(155)	(123)
Accounts payable and accrued liabilities	828	390	1,115	(620)
	706	154	398	222
Provided by (used in):				
Operating activities	633	127	289	516
Financing activities	(99)	-	(99)	-
Investing activities	172	27	208	(294)
	706	154	398	222