

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

As at

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

See accompanying notes to the interim condensed consolidated financial statements.

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

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

See accompanying notes to the interim condensed consolidated financial statements.

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

For the periods ended September 30

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

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

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

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three and nine months ended September 30, 2022 and 2021

1. REPORTING ENTITY

Tenaz Energy Corp. (“**Tenaz**” or the “**Company**”) (formerly Altura Energy Inc.) is an energy company focused on the acquisition and sustainable development of international oil and gas assets capable of returning free cash flow to shareholders. In addition, Tenaz conducts development of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. Tenaz is the corporation resulting from the amalgamation of Tenaz Energy Corp. and Altura Energy Inc. on October 15, 2021 under the *Business Corporations Act* (Alberta) (“**ABCA**”). The Company is headquartered in Calgary and is an Alberta-based reporting entity whose shares are listed on the Toronto Stock Exchange (“**TSX**”) under the symbol “TNZ”. On May 12, 2022, following approval from the TSX, Tenaz’s common shares (“**Common Shares**”) were listed on the TSX and commenced trading at which time trading on the TSX Venture Exchange ceased (the “**TSX Graduation**”).

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

Reorganization

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

These Financial Statements were approved by the Board of Directors on November 10, 2022.

(b) Basis of Measurement and Principles of Consolidation

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

(c) Functional and Presentation Currency

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

(d) Voluntary Change in Accounting Policy

Effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to its decommissioning liability to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The Company had previously utilized a risk-free discount rate to determine the discounted amount of the liability. Tenaz believes that discounting asset retirement obligations based on a credit-adjusted risk-free discount rate more closely approximates the value at which such liabilities could be transferred to a third party, increases the comparability of its financial statements to certain peer companies, provides a better indication of the risk associated with such obligations and results in reliable and more relevant information for the readers of the Company's financial statements. The change in accounting policy was applied retrospectively, including the restatement of comparative amounts in the audited consolidated statements for the year ended December 31, 2021. The impact of the change in accounting policy on these Financial Statements is described in Note 13.

(e) Use of Estimates, Judgements and Assumptions

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

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

3. TERMINATED ACQUISITION

Offer to acquire SDX Energy Plc and termination of acquisition

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

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

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

4. PROPERTY AND EQUIPMENT

The following table reconciles Tenaz's property and equipment:

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

Estimated future development costs of \$114.8 million (December 31, 2021 – \$102.6 million) associated with the development of the Company's proved and probable oil and gas reserves were added to the Company's net book value in the depletion and depreciation calculation. In the nine months ended September 30, 2022, Tenaz capitalized cash and administrative costs (recoveries) directly attributable to property and equipment of (\$0.04) million which are included in the additions above (2021 – \$0.2 million).

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

Impairment reversal

March 31, 2022

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

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2021 reserve report

prepared by its independent third-party reserve evaluators, updated using forecast oil and gas commodity prices at April 1, 2022, revised forecasted future development costs and operating expenses assumptions and removed production for the first three months of 2022, as updated by the Company's internal reserve evaluator. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU, based on management's estimates as at March 31, 2022 which were established principally on relevant land sales. The discount rates used in the valuation ranged from 12% to 30%, with an overall weighted average discount rate of approximately 20%.

The following table details the forecasted oil and gas commodity pricing used in estimating the recoverable amount of Tenaz's Leduc-Woodbend CGU at March 31, 2022:

	WTI Crude Oil (\$US/bbl) ^(1,2)	Western Canadian Select Crude Oil (\$CAD/bbl) ^(1,2)	Alberta AECO Gas (\$CAD/mmbtu) ^(1,2)	Foreign Exchange (\$US/\$CAD) ⁽¹⁾
2022 Remainder	94.50	102.91	5.30	0.800
2023	84.15	85.16	4.28	0.800
2024	77.51	77.04	3.69	0.800
2025	71.63	70.69	3.45	0.800
2026	73.06	72.10	3.52	0.800
thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.800

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

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

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

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

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

5. BANK DEBT

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

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

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

review. The Operating Loan can be drawn in whole multiples of a minimum of \$10,000, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of \$0.75 million.

Fees for Letters of Credit issued under the Operating Loan are 3.5% and standby fees on the unused portion of the authorized amount of the Operating Loan are 0.875%.

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

Tenaz is subject to certain reporting and financial covenants including:

- the Company is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facilities drawn and the fair value of any risk management contracts are excluded and the unused portion of the Credit Facilities is added to current assets; and
- the Company will maintain a liability management rating (“LMR”) in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

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

6. LEASE LIABILITIES

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

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

Tenaz has the following future commitments:

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

7. DECOMMISSIONING LIABILITY

The Company’s decommissioning liability results from its net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Tenaz estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations as at September 30, 2022 to be approximately \$5.7 million (December 31, 2021 – \$5.6 million) with the majority of costs anticipated to be incurred between 2030 and 2040. A credit-adjusted risk-free rate of 15.87% (December 31, 2021 – 8.38%)

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

A reconciliation of the decommissioning liability is provided below:

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

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

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

8. SHARE CAPITAL

(a) Authorized:

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

(b) Issued and outstanding:

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

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

(i) Exercise of Stock Options

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

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

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a NCIB. The NCIB will allow Tenaz to purchase up to 2,619,970 common shares (approximately 9.2% of the outstanding

common shares) over a twelve-month period beginning August 12, 2022 with a daily maximum purchase of 6,108 Common Shares.

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

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

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

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

(c) **Warrants:**

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

On October 8, 2021, as part of the Reorganization (Note 1), the Company closed a non-brokered private placement pursuant to which 2,777,800 Units were issued at a price of \$1.80 per Unit for gross proceeds of \$5.0 million. Each Unit was comprised of one common share and one warrant of the Company, with each warrant entitling the holder thereof to purchase one common share at a price of \$1.80 per common share for a period of five years from the issuance date, subject to certain terms and conditions. These warrants vest and become exercisable as to one-third upon the 20-day volume weighted average price of the Common Shares (the “Market Price”) equaling or exceeding \$2.50 per common share, an additional one-third upon the Market Price equaling or exceeding \$3.15 per Common Share and a final one-third upon the Market Price equaling or exceeding \$3.60 per common share.

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

As at September 30, 2022 and December 31, 2021, two-thirds of the Warrants are fully vested. The Warrants will provide aggregate cash proceeds of approximately \$5.0 million to the Company, if exercised by the holders. Consideration paid to the Company on the exercise of Warrants along with the fair value of Warrants will be credited to share capital.

(d) **Incentive Plans:**

Stock Option Plan

The Company has a Stock Option Plan for directors, employees and service providers. Under the plan, stock options were granted to purchase Common Shares of Tenaz and the maximum term of stock options granted is five years. The Board of Directors determined the vesting schedule at the time of grant. Unless

otherwise determined by the Board of Directors at the time of grant, stock options vest as to one-third on each of the first, second and third anniversary dates of the date of grant.

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

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

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, December 31, 2020	608,500	3.58
Granted	2,150,000	2.57
Exercised	(139,000)	2.14
Expired	(35,000)	2.90
Forfeited	(442,000)	3.87
Repurchased and canceled	(112,000)	2.70
Balance, December 31, 2021	2,030,500	2.60
Exercised	(110,000)	2.10
Forfeited	(75,000)	2.70
Balance, September 30, 2022	1,845,500	2.63

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

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

Tenaz Incentive Plan

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

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

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

calculated based on the \$1.98 grant date fair value and the number of awards outstanding multiplied by the estimated performance factor (September 30, 2022 – 1.0) that will be realized upon vesting, net of an estimated forfeiture rate of 10%.

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

(e) Share-based Compensation

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

(f) Weighted average Common Shares:

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

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

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

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

9. REVENUE

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

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

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

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

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

10. FINANCIAL INSTRUMENTS AND DERIVATIVES

Risks associated with financial assets and liabilities

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

Credit Risk

Tenaz is exposed to third party credit risk through its contractual arrangements with its joint interest partners, marketers of petroleum and natural gas, derivative instrument counterparties and other parties. In the event such entities fail to meet their contractual obligations to Tenaz, such failures could have a material adverse effect. The Company manages the risk by reviewing the credit risk of these entities and by entering into agreements only with parties that have an acceptable credit risk. Tenaz enters into sales contracts with established creditworthy counterparties, limits the exposure to any one counterparty and restricts cash equivalent investments and risk management transactions to counterparties that are high investment grade chartered banks. The maximum credit risk that the Company is exposed to at any point in time is the carrying value of cash and cash equivalents, if any, restricted cash, accounts receivable and the fair value of derivative instrument assets, if any.

The majority of the credit exposure on accounts receivable at September 30, 2022, pertain to revenue for accrued September 2022 production volumes and receivables from joint interest partners. Tenaz primarily transacts with four oil and natural gas marketing companies. The marketing companies typically remit amounts to Tenaz by the 25th day of the month following production and at period end, 50 percent of total outstanding accounts receivable pertains to four marketing companies. At September 30, 2022 Tenaz had a \$0.8 million net joint venture receivable pertaining to capital expenditures and \$0.3 million receivable resulting from GST filings. Subsequent to the period end, the \$0.8 million joint venture receivable has been settled in full. For the nine months ended September 30, 2022, the Company received approximately 92 percent of its revenue from four marketing companies (2021 – 91 percent of its revenue from four marketing companies).

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

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

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

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through its capital management and an actively managed operating and capital expenditure budgeting process. All the accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Credit Facilities, if any, are due on demand. Management believes that funds available from its credit and working capital facilities are adequate to settle the Company's financial liabilities.

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

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

Market Risk

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

Commodity Price Risk

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

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

Foreign currency risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar as compared to the US dollar will reduce the prices received by Tenaz for its petroleum and natural gas sales. In addition, the Company may be exposed to foreign exchange risk in relation to foreign denominated cash, foreign currency swaps as well as other foreign-denominated working capital. Tenaz may manage the risks associated with changes in foreign currency by entering into foreign currency swaps.

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

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's bank debt is exposed to interest rate risk on floating interest rate indebtedness due to fluctuations in market interest rates.

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

Derivative instruments assets and liabilities

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

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

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

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

11. CAPITAL MANAGEMENT

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

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

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

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

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

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

The Company has not paid or declared any dividends since the date of incorporation. In 2021, Tenaz changed the reporting of adjusted working capital (net debt) to include the current portion of lease liabilities and current portion of decommissioning liabilities, if any.

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

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

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

13. IMPACT OF ACCOUNTING POLICY CHANGE

As described in Note 2, effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to its decommissioning liability to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The change in accounting policy was applied retrospectively, resulting in changes to amounts recorded for 2021 and to previously reported amounts as follows:

Consolidated Balance Sheets

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

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

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

Consolidated Statements of Cash Flows

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Marty Proctor
Chair

Anna Alderson
Independent Director

John Chambers
Independent Director

Mark Rollins
Independent Director

Anthony Marino
President and Chief Executive Officer and Director

OFFICERS

Anthony Marino
President and Chief Executive Officer and Director

Bradley Bennett
Chief Financial Officer

Michael Kaluza
Chief Operating Officer

David Burghardt
Senior Vice President, Canada Business Unit

Jonathan Balkwill
Vice President, Business Development

Jennifer Russel-Houston
Vice President, Geoscience

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

ATB Financial
Calgary, Alberta

LEGAL COUNSEL

Lawson Lundell LLP
Calgary, Alberta

Torys LLP
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Odyssey Trust Company
Calgary, Alberta

STOCK TRADING

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

