

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

As at

(\$000)	Note	September 30 2023	December 31 2022
ASSETS			
Current assets			
Cash and cash equivalents		50,787	1,832
Restricted cash	4	31,743	59,091
Accounts receivable	12	8,469	10,251
Prepaid expenses and deposits		1,569	1,099
Derivative instruments	12	385	44
		92,953	72,317
Exploration and evaluation assets	6	20,846	14,706
Property, plant and equipment	7	122,664	104,275
Right-of-use assets		211	12
Investment in associate	8	23,502	12,591
Total assets		260,176	203,901
LIABILITIES			
Current liabilities			
Bank debt	9	-	21,483
Accounts payable and accrued liabilities		20,210	14,396
Current portion of lease liabilities		6	66
Taxes payable		27,415	22,284
Derivative instruments	12	1,629	520
		49,260	58,749
Lease liabilities		234	59
Decommissioning liability	10	56,101	30,435
Deferred taxes		62,105	43,287
Total liabilities		167,700	132,530
SHAREHOLDERS' EQUITY			
Share capital	11	61,275	63,831
Warrants		3,203	3,203
Contributed surplus		10,256	8,871
Retained earnings (Deficit)		17,965	(4,534)
Accumulated other comprehensive loss		(223)	-
Total shareholders' equity		92,476	71,371
Total liabilities and shareholders' equity		260,176	203,901

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		Nine months ended	
		September 30		September 30	
		2023	2022	2023	2022
REVENUE					
Petroleum and natural gas sales		15,051	7,690	43,591	23,235
Royalties		(1,004)	(1,712)	(3,157)	(4,392)
Petroleum and natural gas revenue		14,047	5,978	40,434	18,843
EXPENSES					
Transportation		803	197	2,155	657
Operating		6,789	1,917	16,873	5,293
Income from associate	8	(1,146)	-	(2,964)	-
General and administrative		2,221	1,183	5,932	3,839
Transaction costs	5	841	295	1,270	1,752
Interest and financing, net of income		(614)	103	(72)	99
Foreign exchange gain		(533)	(326)	(618)	3
Loss on derivative instruments	12	735	295	467	1,224
Share-based compensation	11	568	339	1,268	981
Depletion, depreciation and amortization		5,031	1,702	13,379	4,596
Impairment reversal		-	-	-	(4,240)
Accretion of decommissioning liability	10	1,755	49	3,991	149
Gain on acquisition	5	(22,781)	-	(22,781)	-
Total expenses		(6,331)	5,754	18,900	14,353
Net income before income taxes		20,378	224	21,534	4,490
Provision for income taxes					
Current		544	-	2,079	-
Deferred		(1,073)	-	(3,577)	-
Total income taxes		(529)	-	(1,498)	-
Net income		20,907	224	23,032	4,490
Other comprehensive income (loss)					
Currency translation adjustments		(240)	-	(223)	-
Net comprehensive income		20,667	224	22,809	4,490
Net income per share					
Basic	11	0.77	0.01	0.84	0.16
Diluted	11	0.71	0.01	0.80	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 September 30

(\$000)	Note	Share capital	Warrants	Contributed surplus	Retained earnings (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
Normal course issuer bid	11	(324)			69		(255)
Share-based compensation							
- Expensed	11	-	-	981	-	-	981
- Capitalized	11	-	-	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
Balance, December 31, 2022		63,831	3,203	8,871	(4,534)	-	71,371
Normal course issuer bid	11	(2,162)	-	-	(264)	-	(2,426)
Change in liability for share repurchase commitment	11	(394)	-	-	(269)	-	(663)
Share-based compensation							
- Expensed	11	-	-	1,268	-	-	1,268
- Capitalized	11	-	-	117	-	-	117
Net income for the period		-	-	-	23,032	-	23,032
Currency translation adjustments		-	-	-	-	(223)	(223)
Balance, September 30, 2023		61,275	3,203	10,256	17,965	(223)	92,473

(1) Accumulated other comprehensive income (loss) ("AOCI")

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	
		2023	2022	2023	2022
OPERATING ACTIVITIES					
Net income		20,907	224	23,032	4,490
Items not involving cash:					
Share-based compensation	11	568	339	1,268	981
Depletion, depreciation and amortization		5,031	1,702	13,379	4,596
Impairment reversal		-	-	-	(4,240)
Income from associate	8	(1,146)	-	(2,964)	-
Accretion of decommissioning liability	10	1,755	49	3,991	149
Unrealized foreign exchange gain		(536)	(329)	(619)	-
Unrealized (gain) loss on derivative instruments	12	955	295	768	(600)
Gain on acquisition	5	(22,781)	-	(22,781)	-
Deferred taxes		(1,073)	-	(3,577)	-
Decommissioning liabilities settled	10	(2,319)	-	(2,861)	-
Change in non-cash working capital		(1,186)	(836)	(3,387)	(838)
Cash flow from operating activities		175	1,444	6,249	4,538
INVESTING ACTIVITIES					
Exploration and evaluation	6	(246)	-	(1,162)	-
Property, plant and equipment	7	(14,992)	(7,882)	(20,726)	(12,113)
Cash acquired in acquisition	5	36,807	-	36,807	-
Restricted cash for security arrangements	4	-	39,499	42,674	-
Dividend from associate	8	-	-	3,002	-
Change in non-cash working capital		5,458	467	6,288	(518)
Cash flow from (used) in investing activities		27,027	32,084	66,883	(12,631)
FINANCING ACTIVITIES					
Advance (repayment) of bank debt	9	-	(15,946)	(21,483)	-
Normal course issuer bid	11	(816)	(255)	(2,426)	(255)
Proceeds from the exercise of stock options		-	-	-	231
Principal payments on lease liabilities		4	(12)	(14)	(38)
Change in non-cash working capital		(663)	-	(663)	-
Cash flow used in financing activities		(1,475)	(16,213)	(24,586)	(62)
Foreign exchange gain on cash held in foreign currencies		414	-	409	-
CHANGE IN CASH AND CASH EQUIVALENTS		26,141	17,315	48,955	(8,155)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		24,646	-	1,832	25,470
CASH AND CASH EQUIVALENTS, END OF PERIOD		50,787	17,315	50,787	17,315
Cash interest paid		22	162	692	176
Cash taxes paid		2,585	-	7,441	-

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, 2023 and 2022

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 IFRS Accounting 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 November 13, 2023.

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

Acquisition of private companies 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 "2022 Acquisition"). On July 3, 2023, pursuant to a share purchase agreement, Tenaz completed the acquisition of 100% of the issued and outstanding shares of XTO Netherlands Ltd., a private U.S. company with additional working interest in the Netherlands upstream and midstream assets mentioned above (the "2023 Acquisition") (Note 5).

During the nine months ended September 30, 2023, no adjustments have been made to the preliminary purchase price allocation for these acquisitions. 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.

Tenaz is continuing to obtain and verify information required to determine the fair value of certain assets and liabilities and the amount of deferred taxes arising on their recognition, including property plant and equipment, exploration and evaluation assets as well as taxes.

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 2022 Acquisition and 2023 Acquisition, Tenaz commenced business in the Netherlands through wholly-owned subsidiaries 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.

(\$000)				Three months ended September 30	
	Netherlands	Canada/ Corporate	Total	2023	2022
Total assets	129,665	130,511	260,176		79,860
Exploration and evaluation asset additions	193	53	246		-
Property, plant and equipment additions	1,850	13,142	14,992		7,882
Heavy crude oil	-	5,700	5,700		6,304
Natural gas liquids	88	257	345		307
Natural gas	8,059	947	9,006		1,079
Petroleum and natural gas sales	8,147	6,904	15,051		7,690
Royalties	-	(1,004)	(1,004)		(1,712)
Revenue	8,147	5,900	14,047		5,978
Transportation expenses	(525)	(278)	(803)		(197)
Operating expenses	(4,676)	(2,113)	(6,789)		(1,917)
Income from associate ⁽¹⁾	1,146	-	1,146		-
General and administrative expenses	(62)	(2,159)	(2,221)		(1,183)
Current income taxes	(544)	-	(544)		-
Transaction costs	-	(841)	(841)		(295)
Interest and financing, net of income	-	614	614		(103)
Realized foreign exchange gain (loss)	-	(3)	(3)		(3)
Realized loss on derivative instruments	-	220	220		-
Funds flow from operations	3,486	1,340	4,826		2,280

(1) Midstream income from Noordgastransport BV

(\$000)				Nine months ended September 30	
	Netherlands	Canada/ Corporate	Total	2023	2022
Total assets	129,665	130,511	260,176		79,860
Exploration and evaluation asset additions	1,109	53	1,162		-
Property, plant and equipment additions	2,758	17,968	20,726		12,113
Heavy crude oil	-	17,480	17,480		17,938
Natural gas liquids	269	775	1,044		1,160
Natural gas	22,066	3,001	25,067		4,137
Petroleum and natural gas sales	22,335	21,256	43,591		23,235
Royalties	-	(3,157)	(3,157)		(4,392)
Revenue	22,335	18,099	40,434		18,843
Transportation expenses	(1,107)	(1,048)	(2,155)		(657)
Operating expenses	(9,855)	(7,018)	(16,873)		(5,293)
Income from associate ⁽¹⁾	2,964	-	2,964		-
General and administrative expenses	(600)	(5,332)	(5,932)		(3,839)
Current income taxes	(2,079)	-	(2,079)		-
Transaction costs	-	(1,270)	(1,270)		(1,752)
Interest and financing, net of income	-	72	72		(99)
Realized foreign exchange gain	-	(1)	(1)		(3)
Realized gain (loss) on derivative instruments	-	301	301		(1,824)
Funds flow from operations	11,658	3,803	15,461		5,376

(1) Midstream income from Noordgastransport BV

Reconciliation of funds flow from operations to net income

(\$000)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Funds flow from operations	4,826	2,280	15,461	5,376
Unrealized foreign exchange gain (loss)	536	329	619	-
Unrealized gain (loss) on derivative instruments	(955)	(295)	(768)	600
Share-based compensation	(568)	(339)	(1,268)	(981)
Depletion, depreciation and amortization	(5,031)	(1,702)	(13,379)	(4,596)
Impairment reversal	-	-	-	4,240
Accretion of decommissioning liability	(1,755)	(49)	(3,991)	(149)
Gain on acquisition	22,781	-	22,781	-
Deferred tax recovery	1,073	-	3,577	-
Net income	20,907	224	23,032	4,490

4. RESTRICTED CASH

At September 30, 2023, Tenaz held restricted cash of \$31.7 million (€22.2 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)).

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. As part of the XTO NL acquisition, Tenaz acquired a further restricted cash position of \$15.1 million (€10.4 million) on July 3, 2023 (Note 5).

5. BUSINESS COMBINATION

Acquisition of XTO Netherlands Ltd. (“XTO NL”)

On July 3, 2023, pursuant to a Share Purchase Agreement (“SPA”), Tenaz completed the acquisition of 100% of the issued and outstanding shares of XTO Netherlands Ltd. (“XTO NL”) from XH, LLC (“XH”), a wholly owned subsidiary of ExxonMobil Corporation (the “2023 Acquisition”).

Pursuant to the 2023 Acquisition, the Company acquired: (i) an additional non-operated working interest in certain offshore natural gas licenses in the Dutch North Seas; and (ii) an additional ownership interest in Noordgastransport B.V. (“NGT”), a private limited company formed in the Netherlands which holds gas gathering and processing networks in the DNS and an associate of Tenaz (Note 8).

Prior to July 3, 2023, the acquired assets were held in a U.S. corporation that was converted into a private U.S. Delaware limited liability corporation immediately prior to the closing of the 2023 Acquisition and renamed Tenaz Energy (US) II LLC and, on July 4, 2023, migrated and continued as a Luxembourg private limited liability company, renamed “Tenaz Energy Netherlands Offshore II S.A.R.L” (“TENO II”). TENO II is a wholly owned subsidiary of the Company.

The above business combination was recognized in accordance with IFRS 3 *Business Combinations* using the acquisition method.

Pursuant to the SPA, Tenaz acquired all of the private company’s issued and outstanding shares in exchange for \$0.2 million consideration payable to the vendor upon final working capital adjustments based on the private company’s surplus working capital as at January 1, 2023. The payable to the vendor was settled in September 2023.

The 2023 Acquisition increases Tenaz’s working interest in in each of the L10/L11a, K9, K12 and N7b license blocks in the Dutch North Sea as follows: L10/L11a: from 11.35% to 21.43%; K9a and K9b: from 8.44% to 15.94%; K9c: from 6.49% to 12.26%; K12: from 5.67% to 10.71%; and N7b: from 9.45% to 17.86%.

Tenaz’s interest in the undeveloped F10, F11a, F17, and F18 licenses remains unchanged as a result of the 2023 Acquisition.

Tenaz also acquired an additional 10.1% ownership interest in NGT bringing Tenaz’s total interest to 21.4% (Note 8).

Preliminary purchase price allocation

The following preliminary purchase price allocation was based on the assets acquired and liabilities assumed:

(\$000)	July 3, 2023
Identifiable net assets	
Cash acquired	36,807
Restricted cash	15,083
Accounts receivables	1,928
Exploration and evaluation assets (Note 6)	5,200
Property, plant and equipment – Developed and producing assets (Note 7)	11,554
Investment in NGT (Note 8)	11,182
Accounts payable and accrued liabilities	(1,418)
Income taxes payable	(9,051)
Decommissioning liabilities (Note 10)	(25,284)
Deferred tax liability	(23,027)
Total identifiable net assets	22,974
Consideration	
Payable to vendor for surplus working capital	193
Total consideration	193
Gain on acquisition	22,781

Tenaz's acquisition of XTO NL resulted in a \$22.8 million gain included in the gain on acquisition line item in the statement of net income and comprehensive income as the consideration was less than the value of the identifiable net assets acquired. The gain is primarily due to the fair value of the decommissioning liabilities recognized by Tenaz as compared to the remaining cash in the acquired entity.

The above preliminary purchase price allocation is based on management's best estimate at the time of the preparation of these Financial Statements. Given the complexity of the 2023 Acquisition, the valuation of the net assets acquired and associated purchase price allocation is not final as Tenaz is continuing to obtain and verify information required to determine the fair value of certain assets and liabilities and the amount of deferred taxes arising on their recognition, including property plant and equipment, exploration and evaluation assets and taxes as well as finalization of working capital adjustments. 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.

As a result of completing the 2023 Acquisition, the private company became a wholly-owned subsidiary of Tenaz, and is subsequently consolidated with Tenaz as of July 3, 2023, the acquisition date.

If the business combination had occurred on January 1, 2023, pro forma revenue and operating netback (revenue less transportation and operating expenses plus midstream income) were estimated to be approximately \$50.5 million and \$31.2 million, respectively, for the nine months ended September 30, 2023. However, these estimates may not be representative of the actual results if combined on January 1, 2023.

Included in Tenaz's consolidated results for the three and nine months ended September 30, 2023 is \$3.0 million of revenue and \$1.6 million of operating netback, respectively, relating to the 2023 Acquisition.

Transaction costs

For the three and nine months ended September 30, 2023, Tenaz incurred transaction costs of \$0.8 million and \$1.3 million, respectively, in connection with the Company's mergers and acquisitions activity (including the 2023 Acquisition and 2022 Acquisition), all of which have been expensed in the respective periods.

6. EXPLORATION AND EVALUATION

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

(\$000)	Total
Balance, December 31, 2022	14,706
Additions	1,162
Acquisition (Note 5)	5,200
Foreign exchange	(222)
Balance, September 30, 2023	20,846
Canada	53
Netherlands	20,793

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

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

7. 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	20,669	57	20,726
Acquisition (Note 5)	11,554	-	11,554
Share-based compensation (Note 11)	117	-	117
Decommissioning cost additions and change in estimates (Note 10)	(146)	-	(146)
Foreign exchange	(624)	-	(624)
Balance, September 30, 2023	164,066	334	164,400
Depletion, depreciation, amortization and impairment			
Balance, December 31, 2022	(28,332)	(166)	(28,498)
Depletion and depreciation	(13,328)	(29)	(13,357)
Foreign exchange	119	-	119
Balance, September 30, 2023	(41,541)	(195)	(41,736)
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 September 30, 2023	122,525	139	122,664
Canada	74,954	139	75,093
Netherlands	47,571	-	47,571

Estimated future development costs of \$96.9 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.

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

8. INVESTMENT IN ASSOCIATE

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

Name of associate	Jurisdiction	% Interest held	
		September 30 2023	December 31 2022
Noordgastransport BV ("NGT")	Netherlands	21.4%	11.3%

As part of the acquisition of XTO Netherlands Ltd. on July 3, 2023, Tenaz acquired an additional 10.1% interest in NGT (Note 5).

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

(\$000)	Total
Balance, December 31, 2022	12,591
Acquisition (Note 5)	11,182
Income from associate	2,964
Dividend	(3,002)
Foreign exchange	(233)
Balance, September 30, 2023	23,502

Summarized financial information in respect of NGT includes:

As at (\$million)	September 30 2023	December 31 2022
Total assets	176	184
Total liabilities	(130)	(133)
Net assets	46	51
Tenaz's share of net assets	10	6

(\$million)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Total revenue	18	16	58	55
Net income	7	2	22	17
Tenaz's share of net income	1	-	3	-

9. BANK DEBT

Bank debt is comprised of the following:

As at (\$000)	September 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 September 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 September 30, 2023, the Company was in compliance with all debt covenants. The working capital ratio as defined was 2.15:1 and the Company was compliant with the LMR covenant (8.20 at October 7, 2023).

10. DECOMMISSIONING LIABILITY

A reconciliation of the decommissioning liability is provided below:

(\$000)	
Balance, December 31, 2022	30,435
Additions	20
Acquisition	25,284
Changes in abandonment timing and costs	(804)
Settled	(2,861)
Accretion	3,991
Changes in discount rates	638
Foreign exchange	(602)
Balance, September 30, 2023	56,101
Canada	1,979
Netherlands	54,122

Tenaz calculated the present value of the decommissioning liability using a credit-adjusted risk-free rate, calculated using a credit spread of 9.4% as at September 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 \$107.0 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 \$129.6 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:

	September 30 2023	December 31 2022
Risk-free rates		
Canada	3.8%	3.3%
Netherlands	2.8%	2.9%
Inflation rates		
Canada	1.8%	1.4%
Netherlands	2.5%	2.9%

11. 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	(948,200)	(2,162)
Change in liability for share repurchase commitment	-	(394)
Balance, September 30, 2023	27,144,974	61,275

Normal Course Issuer Bid (“NCIB”)

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence an initial NCIB. The NCIB allowed 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 this period, Tenaz repurchased 1,242,400 Common Shares.

On August 21, 2023, the Toronto Stock Exchange approved the Company to commence a further NCIB. The NCIB allows Tenaz to purchase up to 2,473,464 Common Shares (approximately 9.1% of the outstanding Common Shares) over a twelve-month period beginning August 23, 2023 with a daily maximum purchase of 18,926 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:

	Nine months ended September 30 2023	Year ended December 31 2022
(\$000, except as noted)		
Share repurchase activities (number of Common Shares)		
Shares repurchased	(948,200)	(454,900)
Amounts charged to:		
Share capital	(2,162)	(1,035)
Retained earnings	(264)	281
Share repurchase cost	(2,426)	(754)
Average cost per share (\$)	2.56	1.66

Under the ASPP, the Company has recorded the following liability for share repurchases that may take place during its internal blackout period, included in accounts payable and accrued liabilities:

	September 30 2023	December 31 2022
(\$000)		
Amounts charged to:		
Share capital	(394)	-
Retained earnings	(269)	-
Liability for share purchase commitment	(663)	-

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 September 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, September 30, 2023	1,525,000	2.70

The range of exercise prices for stock options outstanding and exercisable under the plan at September 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	3.1	2.70	508,700	3.1	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, September 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 nine months ended September 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 September 30, 2023, there were 73,997 Common Shares available for issuance under the TIP.

Share-based Compensation

(\$000)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Share-based compensation:				
Stock Option Plan	178	341	503	1,022
Tenaz Incentive Plan	468	16	882	16
Total share-based compensation	646	357	1,385	1,038
Capitalized share-based compensation (Note 7)	(78)	(18)	(117)	(57)
Share-based compensation expensed	568	339	1,268	981

Net Income per Share

Weighted average Common Shares (\$000, except Common Shares and per share amounts)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net income – Basic and diluted	20,907	224	23,032	4,490
Weighted average Common Shares				
Basic	27,291,778	28,519,700	27,585,619	28,485,801
Diluted	29,555,281	28,689,688	28,821,908	29,126,905
Net income per share				
Basic	0.77	0.01	0.84	0.16
Diluted	0.71	0.01	0.80	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 months ended September 30, 2023, no 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 – 1,845,500 outstanding stock options and 119,800 outstanding PSUs were excluded).

For the nine months ended September 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 – 1,605,500 outstanding stock options and nil PSUs were excluded).

12. FINANCIAL INSTRUMENTS

At September 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 September 30, 2023, pertains to revenue for accrued September 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 25th day of the month following production. At September 30, 2023, 56% of total outstanding accounts receivable pertains to the top 7 purchasers. As at September 30, 2023, receivables for revenue were \$5.8 million and joint venture receivables were \$2.6 million, which

are included in accounts receivable (December 31, 2022 - \$9.7 million). For the nine months ended September 30, 2023, the Company received approximately 97% of its revenue from 7 purchasers (2022 – 92% of its revenue from 4 purchasers).

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

As at (\$000)	September 30 2023	December 31 2022
Current	8,251	10,081
31 – 60 days	75	169
61 – 90 days	93	-
> 90 days	50	1
Allowance for doubtful accounts	-	-
Total	8,469	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 13) 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 September 30, 2023, Tenaz had a current tax liability of \$27.4 million related to the Netherlands operations, which is net of instalments paid to the Dutch Tax Authority. The current tax liability consists of \$1.0 million related to corporate income tax ("CIT") and state profit share ("SPS") along with \$26.4 million owing in accordance with 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 September 30, 2023, the Company was holding \$50.8 million in cash and cash equivalents, \$31.7 million (€22.2 million) in restricted cash and had \$10 million available on undrawn Credit Facilities (Note 9).

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 September 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 September 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 September 30 2023 (\$000)
WCS vs WTI Basis Swap Contracts						
Oct 1/23–Dec 31/23	Crude Oil	Swap	200 bbls/d	WCS	WTI less USD \$16.50	43
Natural Gas Swap Contracts						
Oct 1/23–Oct 31/23	Natural Gas	Swap	500 GJ/d	AECO 5A	CAD \$2.85	14
Derivative instrument asset						57

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

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. 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.

At September 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 September 30 2023 (\$000)
Foreign Currency Swaps					
October 2023	Swap	EUR 33,000,000	CAD 48,510,000	1.4700	(1,272)
October 2023	Swap	EUR (34,000,000)	CAD (48,453,400)	1.4251	(357)
November 2023	Swap	EUR 34,000,000	CAD 48,518,000	1.4270	328
Derivative instrument liability					(1,301)

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 September 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 September 30, 2023 and December 31, 2022 on the balance sheet:

(\$000)	Commodity	Foreign currency	September 30 2023
Derivative instrument assets	57	328	385
Derivative instrument liabilities	-	(1,629)	(1,629)
Net financial derivative instrument asset (liability)	57	(1,301)	(1,244)

(\$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:

(\$000)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Realized gain (loss)				
Commodity contracts	(72)	-	100	(1,824)
Foreign currency swaps	292	-	201	-
Realized gain (loss) on derivatives	220	-	301	(1,824)
Unrealized gain (loss)				
Commodity contracts	177	-	105	600
Foreign currency swaps	(1,132)	(295)	(873)	-
Unrealized gain (loss) on derivatives	(955)	(295)	(768)	600
Gain (loss) on derivatives	(735)	(295)	(467)	(1,224)

13. 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 12). 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, 2023 and December 31, 2022 is summarized as follows:

(\$000)	September 30 2023	December 31 2022
Current assets	92,953	72,317
Current liabilities	(49,260)	(58,749)
Net current assets	43,693	13,568
Exclude fair value of derivative instruments	1,244	476
Adjusted working capital	44,937	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 11. Details of the Company's restricted cash pertaining to decommissioning security for Tenaz's Netherlands assets are described in Note 4.

14. COMMITMENTS AND CONTINGENCIES

The Company's bank debt commitments at September 30, 2023 are described in Note 9.

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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Marty Proctor
Chair

Anna Alderson
Independent Director

John Chambers
Independent Director

Mark Rollins
Independent Director

Varinia Radu
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**

