2023

ANNUAL REPORT

Proven Principles, New Opportunities

TENAZ ENERGY

PRESIDENT'S MESSAGE

We are pleased to provide our quarterly and annual report of our financial and operating results, along with our year-end independent reserve report. We had our strongest operating results since the inception of Tenaz, again reporting very strong reserve replacement and capital efficiencies. With respect to acquisitions, we continue to advance our pipeline of potential transactions, particularly in Europe and Latin America. We believe asset market conditions are in our favor with commodity prices at reasonable levels and little evidence that buyer competition has heated up.

Netherlands Operations

At mid-year, we made our second non-operated Netherlands acquisition when we added XTO Netherlands to our DNS portfolio. Our Netherlands production averaged 1,107 boe/d during Q4 2023, up 1% over Q3 2023. For full year 2023, Netherlands contributed 892 boe/d (99% TTF gas) at an average realized price of $16.65/Mcf.

European gas prices appear to have bottomed after this winter's weather-driven decrease. Despite another warm winter, European gas storage is slightly below last year's levels, and, as at March 27th, the prompt price remains at $11.92/Mcf, more than four times North American levels. The TTF forward price curve is largely flat, with an average price of $12.69/Mcf through 2027. We have hedged 40% of our Q1 2024 TTF exposure at $24.12/Mcf and 20% of Q2 and Q3 2024 at $14.58/Mcf.

Capital investment in the Netherlands upstream assets in 2023 totaled $4.4 million for well workover and facilities projects, managing to maintain flat production over the second half of 2023. We would expect to have roughly similar activity for 2024, yielding production levels slightly below those in the second half of 2023.

With the XTO Acquisition, we also increased our shareholding in the NGT midstream system by 10.1%, bringing our ownership in this high-reliability and valuable offshore gas gathering business to 21.4%. NGT is accounted for as an equity investment, whereby our interest in the net income of NGT is included in our results as income from associate. Tenaz estimates that full year 2023 NGT net income was approximately $27 million ($6 million to Tenaz's equity interest). Dividend payments from NGT have traditionally occurred in the first half of the subsequent year. Payout of earnings in the form of dividends from NGT can vary from year to year, but typically closely matches the underlying earnings from the prior financial year. Tenaz received an interim dividend of €2.2 million ($3.1 million) at the end of Q4 2023.

In addition to its desirable attributes as a natural gas gathering and processing business, NGT also represents critical infrastructure that may also have a key long-term role in the energy transition in Europe. The NGT system is a hard-to-replicate pipeline network that is certified to transport hydrogen and may provide a cost-effective and environmentally-benign way to connect future offshore hydrogen production with onshore users.

Tenaz also has an 11.35% participation right in the L10 CCS project, which is intended to provide a permanent storage solution for CO_2 sourced from industrial emitters. This project has entered the Front-End Engineering Design ("FEED") phase, which is scheduled to continue until the end of Q2 2025. The FEED phase is required for comprehensive project planning before making the Final Investment Decision ("FID"), with FID currently slated for Q2/Q3 2025. In the event of a positive FID, project start up is estimated to occur in 2028, with injection of up to five million tonnes per annum of CO_2. The L10 gas field, located approximately 50 km offshore in the DNS, has a potential storage capacity of 96 MT. The combined storage capacity of the L10 and other pools potentially amenable to CCS in the Tenaz license areas is approximately 150 MT.

Canadian Operations

Production from the Leduc-Woodbend ("LWB") field averaged 2,028 boe/d in Q4 2023, an increase of 59% compared to Q3 2023, driven by strong contributions from our four well (3.35 net) drilling program which was fully on production in the fourth quarter. For 2023 as a whole, production averaged 1,547 boe/d as compared to 1,193 boe/d in 2022, an increase of 30%.

The four wells drilled in 2023 are the longest to-date in the LWB field, with total measured depths ranging from 5,000 to 5,700 meters. These wells also have the longest completed horizontal sections at LWB, with completion intervals ranging from 3,600 to 4,200 meters. Despite longer laterals and an increased number of fracs, these wells were drilled entirely within the targeted Rex member of the Mannville group and were completed with 97% of frac stages successfully placed. The new wells have generated impressive rates, with a Q4 2023 average rate of 225 boe/d per well and a very high oil percentage of 89% in their product mix. This strong average well rate was achieved even though one of the wells only has 40% of its lateral open to production due to a fish stuck in the lateral. We view the improving technical indicators and production levels on the Rex wells as evidence of the effectiveness of Tenaz's engineering and geoscience approach, which we will also seek to apply on future international acquisitions that we operate.

Capital expenditures for Canada in 2023 totaled approximately $19 million, more than 80% of which was for the four-well DCET (drill, complete, equip and tie-in) program, with the remainder primarily for facility modifications and land acquisition. As a result of the success of the drilling program and ongoing efforts to reduce well failures and other sources of downtime, unit operating expense in Canada decreased to $12.47/boe in Q4 2023, a 31% reduction from Q3 2023. For 2023 as a whole, unit operating expense decreased to $16.55/boe, 6% lower than in 2022.

Looking forward to 2024, we expect to again conduct a four well (3.5 net) drilling program in LWB at roughly comparable CAPEX levels to last year. We believe that this program will continue to generate strong Canadian production growth, with average production in 2024 expected to increase on the order of 20% from 2023 levels.

With respect to commodities hedging, we have hedged approximately 25% of our winter 2024/25 gas production at an AECO marker price of $3.28/Mcf. Our crude oil produced at LWB sells for approximately the WCS marker price and does not require diluent. We are currently unhedged for both WCS differentials and the underlying WTI index. Though we may hedge as opportunities arise, we have a constructive view of both world oil fundamentals and the Canadian transport situation as start-up of the Trans Mountain pipeline approaches. Moreover, our unlevered financial position allows us the flexibility to maintain a greater degree of operating leverage through unhedged commodity exposure.

Reserves

We commissioned McDaniel and Associates Consultants Ltd. ("McDaniel") to provide an independent year-end 2023 reserves evaluation report (the "McDaniel Report"), dated March 12, 2024 with an effective date of December 31, 2023. Total Proved plus Probable ("2P") reserves increased 7%, reflecting a reserve replacement ratio of 195%. The increase in reserves was driven by the XTO Acquisition and our development activities at LWB, partially offset by production during 2023. At year-end 2023, 2P reserves totaled 14.6 million boe, with a reserve life index of 12.8 years calculated using our record level of production in Q4 2023.

Organic F&D costs (including FDC) were $22.10/boe at the 2P level, generating a recycle ratio of 2.0. When calculating FD&A costs, we have elected a conservative presentation by setting consideration for the XTO Acquisition at a zero cost. With this assumption, FD&A costs (including FDC) were $17.14/boe, generating a recycle ratio of 2.5. Had we utilized the actual negative purchase price for XTO, FD&A costs (including FDC) and recycle ratio would have had negative values.

The McDaniel Report is discussed in more detail later in this press release.

Corporate Discussion

Our corporate guidance levels for 2024 remain unchanged at 2,700 to 2,900 boe/d of production and $23 to $25 million of D&D CAPEX.

With respect to corporate liquidity, positive adjusted working capital was $49.3 million at the end of 2023, an increase of $4.4 million over the prior quarter and $35.3 million over year-end 2022. The improvement was driven by free cash flow and the XTO Acquisition for the respective periods, partially offset by spending on decommissioning activity and share buybacks. We remain undrawn on our $10 million bank facility.

During 2023, we expended $3.9 million under our Normal Course Issuer Bid ("NCIB") program, buying back 1.3 million shares at an average price of $2.97/share. Since inception, the NCIB program has retired 1.9 million shares at an average price of $2.70/share.

It has now been more than two years since we executed our recapitalization of Altura Energy in Q4 2021. During that time, we have increased our production rate more than three-fold, doubling Canadian production through organic activity and introducing overseas production through our first two Netherlands transactions. Funds flow from operations ("FFO") for 2023 was $28.9 million, an approximately eight-fold increase from before the recapitalization, driven both by higher production and higher margins. Regarding our balance sheet, we have moved from a net debt position of $3.5 million prior to the recapitalization to $49.3 million in positive adjusted working capital at year-end 2023, and have an undrawn bank facility.

In terms of market performance, Tenaz shares now trade at twice the level then at the time of the recapitalization of Altura. During 2023, Tenaz delivered a total shareholder return of 83%, ranking TNZ in the top 1.3% of all TSX issuers, and among the very best returns for companies in the oil and gas industry.

More importantly than these statistical improvements, we believe that we have demonstrated, at least to a modest degree, both elements of our overseas acquisition-oriented business model. First, we believe there is a great value opportunity in overseas acquisitions. In the Netherlands, we have executed two small but highly-accretive transactions in a high-value commodity market. We hope that these transactions will prove to be forerunners of larger future acquisitions from our transaction pipeline. Second, we believe that we will be able to significantly improve production profiles and cost levels when we operate assets acquired in the overseas market. We have demonstrated such capability at the LWB field, where our geologic description, drilling methods and frac designs have significantly improved production results and capital efficiencies. We find it encouraging that such technical improvement could be achieved when taking over from a quality operator like Altura, which discovered this substantial and previously-overlooked oil development project. Our assessment is that the North American oil and gas industry is in general much more efficient than the overseas industry, especially with respect to the more mature producing assets that we are targeting. The combination of these two factors - better value at acquisition and more opportunities for operational improvement - is what we believe creates such outsized opportunities for high returns in the overseas market.

We appreciate the hard and effective work of our team members in pursuing this strategy. In many ways, it is not an easy business model, requiring detailed technical, commercial and financial work to evaluate and structure transactions. Because of their complexity and the inherent slowness of the overseas asset market, these acquisitions typically take a long time to bring to fruition with many twists and turns along the way. These challenges, in fact, increase the opportunity to achieve high returns on capital. Our team of technical and finance professionals recognizes this and seeks to take advantage of the complexities to strike more favorable terms and structures for Tenaz.

Our team is invested in Tenaz and fully aligned with our broader shareholder group in pursuit of our shared success. As we have previously stated, we can make no guarantees regarding the certainty or timing of the next transaction, but we are optimistic about bringing quality assets into our portfolio. When we do so, we are confident that our investments will be consistent with our stated financial and strategic goals. We appreciate the continued support of our shareholders as we pursue our vision for Tenaz.

/s/ Anthony Marino

President and Chief Executive Officer
March 28, 2024

TENAZ ENERGY

FINANCIAL AND OPERATIONAL SUMMARY

($000 CAD, except per share and per boe amounts)	Three months ended Dec 31 2023	Sept 30 2023	Dec 31 2022	Year Ended Dec 31 2023	Dec 31 2022
FINANCIAL					
Petroleum and natural gas sales	**21,261**	15,051	**10,852**	**64,852**	34,087
Cash flow from operating activities	**8,927**	175	**4,809**	**15,176**	9,347
Funds flow from operations(1)	**13,401**	4,826	**3,236**	**28,862**	8,612
Per share – basic(1)	**0.50**	0.18	**0.11**	**1.05**	0.30
Per share – diluted(1)	**0.45**	0.16	**0.11**	**0.99**	0.30
Net income	**3,515**	20,907	**747**	**26,547**	5,237
Per share – basic	**0.13**	0.77	**0.03**	**0.97**	0.18
Per share – diluted(2)	**0.12**	0.71	**0.03**	**0.91**	0.18
Capital expenditures(1)	**2,967**	15,238	**4,988**	**24,855**	17,101
Adjusted working capital (net debt)(1)	**49,338**	44,937	**14,149**	**49,338**	14,149
Common shares outstanding (000)					
End of period – basic	**26,793**	27,145	**28,093**	**26,793**	28,093
Weighted average for the period – basic	**26,963**	27,292	**28,242**	**27,429**	28,424
Weighted average for the period – diluted	**29,970**	29,555	**28,244**	**29,053**	28,878
OPERATING					
Average daily production					
Heavy crude oil (bbls/d)	**1,342**	675	827	**917**	667
Natural gas liquids (bbls/d)	**75**	60	53	**64**	56
Natural gas (Mcf/d)	**10,310**	9,823	3,843	**8,749**	2,972
Total (boe/d)	**3,135**	2,372	1,520	**2,439**	1,218
Netbacks ($/boe)					
Petroleum and natural gas sales	**73.71**	68.97	77.59	**72.85**	76.67
Royalties	**(5.89)**	(4.60)	(11.12)	**(5.46)**	(13.38)
Transportation expenses	**(3.50)**	(3.68)	(2.60)	**(3.56)**	(2.29)
Operating expenses	**(19.36)**	(31.11)	(21.56)	**(25.23)**	(18.69)
Midstream income(1)	**4.86**	5.25	-	**4.90**	-
Operating netback(1)	**49.82**	34.83	42.31	**43.50**	42.31
BENCHMARK COMMODITY PRICES					
WTI crude oil (US$/bbl)(3)	**78.33**	82.18	82.63	**77.62**	94.23
WCS (CAD$/bbl)	**76.86**	93.12	77.39	**80.90**	98.53
AECO daily spot (CAD$/Mcf) (4)	**2.30**	2.61	5.23	**2.64**	5.43
TTF (CAD$/Mcf)	**18.52**	14.43	50.12	**17.72**	52.84

(1) This is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" in the section "Advisories".
(2) Per share metrics calculated using the weighted average common shares for the applicable period.
(3) WTI represents posting price of West Texas Intermediate ("WTI") crude oil.
(4) AECO Price means the Alberta Energy Company monthly index of Gas price.

HIGHLIGHTS

Fourth Quarter and Year-End 2023 Results

- Production volumes averaged a record level of 3,135 boe/d[1] in Q4 2023. Canadian production of 2,028 boe/d reflected contributions from the new wells brought on-line from the 2023 campaign at Leduc-Woodbend ("LWB"). Production in the Dutch North Sea ("DNS") of 1,107 boe/d was consistent with the third quarter, despite unplanned facility downtime.
- Production volumes averaged 2,439 boe/d for full year 2023, more than double full year 2022 levels. Production was higher due to the acquisition of Netherlands assets and continued organic growth at LWB in Canada. Production from LWB was 30% higher year-over-year.
- All four wells in the 2023 program at LWB have been successfully put on production. Gross production rates during the fourth quarter averaged 225 boe/d (89% oil) per well.
- Funds flow from operations[2] ("FFO") for the fourth quarter was $13.4 million ($0.50/share[3]), 178% higher than Q3 2023 and 315% higher than Q4 2022. Higher quarter-over-quarter FFO resulted from higher production in Canada and higher prices for TTF[4] natural gas.
- FFO for full year 2023 was $28.9 million ($1.05/share), 236% higher than in 2022. Increased annual FFO primarily resulted from contributions from the new Netherlands assets and higher production in Canada, partially offset by higher transaction costs.
- Net income for full year 2023 was $26.5 million ($0.97/share), as compared to $5.2 million ($0.18/share) in 2022. Higher net income resulted primarily from the recognition of a gain on the acquisition of XTO Netherlands Ltd. ("XTO Acquisition") in Q3 2023, partially offset by increased G&A and transaction costs pertaining both to closed acquisitions and potential future transactions.
- We ended 2023 with positive adjusted working capital[2] of $49.3 million, an increase of $4.4 million over the prior quarter and $35.3 million over year-end 2022. The improvement was driven by free cash flow and the XTO Acquisition for the respective periods, partially offset by spending on decommissioning activity and share buybacks. We remain undrawn on our $10 million bank facility.
- During 2023, we deployed $3.9 million for our Normal Course Issuer Bid ("NCIB") program, repurchasing and retiring 1.3 million shares at an average price of $2.97/share. Since the beginning of the NCIB program in Q3 2022, we have retired 1.8 million common shares (6.1% of basic common shares) at an average cost of $2.63/share.
- We have hedged approximately 40% of our expected European gas production for Q1 2024 through a physical swap at €55.75/MWh (approximately $24.12/Mcf). For Q2 and Q3 2024, we have hedged approximately 20% of our expected European gas production through a physical swap at €34.00/MWh (approximately $14.58/Mcf).
- During 2023, Tenaz delivered a total shareholder return of 83%, ranking TNZ in the top 1.3% of all TSX-listed issues.

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(1) The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. Refer to "Barrels of Oil Equivalent" section included in the "Advisories" section.
(2) This is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section.
(3) Per share metrics calculated using the weighted average common shares for the applicable period.
(4) TTF represents posting price of Title Transfer Facility ("TTF") natural gas in the Netherlands.

Year-End 2023 Reserves[5]

- Proved Developed Producing ("PDP") reserves increased 22%, including a 17% increase in Canada through organic activities, reflecting a corporate reserve replacement ratio of 161%. PDP reserves at year-end totaled 3.7 million boe.
- Total Proved ("1P") reserves increased 6%, reflecting a reserve replacement ratio of 144%. 1P reserves at year-end totaled 9.3 million boe.
- Total Proved plus Probable ("2P") reserves increased 7%, reflecting a reserve replacement ratio of 195%. 2P reserves at year-end totaled 14.6 million boe.
- PDP Finding and Developing ("F&D")[6] costs (including future development capital ("FDC")) were $19.53/boe, resulting in a 2.2 organic recycle ratio based on our 2023 operating netback[2] of $43.18/boe. F&D costs (including FDC) were $23.44 and $22.10 at the 1P and 2P levels, generating organic recycle ratios of 1.8 and 2.0, respectively.
- PDP Finding, Developing and Acquisition Costs ("FD&A"), were $17.23/boe (including FDC), resulting in a 2.5 recycle ratio. FD&A costs (including FDC) were $19.69 and $17.15 at the 1P and 2P levels, generating recycle ratios of 2.2 and 2.5, respectively. For purposes of the calculation of FD&A costs and their corresponding recycle ratios, we have utilized a nil purchase price for the XTO acquisition. Actual net consideration for the XTO Acquisition was negative $42.8 million, due to acquiring positive working capital while not providing financial consideration to XTO. Had we utilized the negative purchase price for this acquisition, FD&A costs (including FDC) and their corresponding recycle ratios would have been negative values.
- Reserve life indices were 3.2 years, 8.1 years and 12.8 years, respectively, for PDP, 1P and 2P reserves, based on our Q4 2023 production rate.

Capital Activity and Outlook

- Capital expenditures[2] during full year 2023 were approximately $24.8 million. This total includes both Drilling and Development capital expenditures ("D&D CAPEX") and Exploration and Evaluation capital expenditures ("E&E CAPEX").
- Our 2023 Canadian development program included drilling, completing, equipping and tie-in of four gross (3.35 net) wells. Combining our Canadian investment program with Netherlands workover and facility investment, D&D CAPEX was $23.3 million. Full year D&D CAPEX for 2023 was within our guidance range of $20 to $24 million.
- During 2023, we elected to participate in FEED activities for the potential L10 Carbon Capture and Storage ("CCS") project in the Netherlands, which is included as E&E CAPEX due to the project's unsanctioned status. Full year 2023 E&E CAPEX totalled $1.5 million (100% of which related to L10 CCS).
- In 2024, we plan D&D CAPEX of $23 to $25 million. The D&D CAPEX program includes a four (3.5 net) well drilling program in Canada and non-operated workovers, facility maintenance and studies at the F17a oil development project in the Netherlands. In addition, we forecast E&E CAPEX of $3 million for continued evaluation of the potential L10 CCS project.
- Production guidance for 2024 remains unchanged at 2,700 to 2,900 boe/d.

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(5) Reserves evaluated by McDaniel & Associates Consultants Ltd. in a report effective December 31, 2023 dated March 12, 2024. Refer to "Reserves".

(6) "FD&A Cost", "F&D Cost", "Reserves Replacement Ratio" and "Recycle Ratio" do not have standardized meanings and therefore may not be comparable with the calculation of similar measures for other entities. See "Information Regarding Disclosure on Oil and Gas Reserves and Operational Information" in this press release.

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following management’s discussion and analysis (“MD&A”) of financial condition and results of operations for Tenaz Energy Corp. (the “Company” or “Tenaz”) is dated March 28, 2024 and should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the years ended December 31, 2023 and 2022, as well as the Company’s Annual Information Form (“AIF”) that is found on SEDAR+ at www.sedarplus.ca. These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the IASB and are sometimes referred to in this MD&A as Generally Accepted Accounting Principles (“GAAP”).

This MD&A includes references to certain financial and performance measures which do not have standardized meanings prescribed by IFRS (“Non-GAAP”). In addition, this MD&A includes references to certain Non-GAAP financial measures, Non-GAAP financial ratios, capital management measures and supplementary financial measures which are not specified, defined, or determined under IFRS and are therefore considered Non-GAAP and other financial measures. These Non-GAAP and other financial measures are unlikely to be comparable to similar financial measures presented by other issuers. For a full description of these Non-GAAP and other financial measures and a reconciliation of these measures to their most directly comparable GAAP measures, please refer to “Non-GAAP and Other Financial Measures” included in the “Advisories” section in this MD&A.

Readers are cautioned that the MD&A also contains forward-looking statements and should be read in conjunction with Tenaz’s disclosure under “Forward-Looking Information” included in this MD&A.

All figures are in thousands of Canadian dollars unless otherwise noted.

DESCRIPTION OF BUSINESS

Tenaz is an energy company focused on the acquisition and sustainable development of international oil and gas assets capable of returning free cash flow to shareholders. Tenaz has domestic operations in Canada along with offshore natural gas assets in the Netherlands. The domestic operations consist of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. Tenaz commenced operations in the Netherlands with the acquisition of a private U.S company on December 20, 2022 (“2022 Acquisition”) and XTO Netherlands Ltd. on July 3, 2023 (“XTO Acquisition”). The Netherlands natural gas assets are located in the Dutch sector of the North Sea. Additional information regarding Tenaz is available on SEDAR+ at www.sedarplus.ca and Tenaz’s website at www.tenazenergy.com. Tenaz’s Common Shares are listed for trading on the Toronto Stock Exchange under the symbol “TNZ”.

PRODUCTION AND CAPITAL GUIDANCE

The following tables summarize our 2023 and 2024 production and capital guidance. Production guidance for 2023 was updated on June 26, 2023 with the announcement of our XTO Netherlands acquisition. Production and capital guidance for 2024 was approved by the Tenaz Board of Directors on December 21, 2023.

	Updated Guidance June 26, 2023	**2023 Results**
2023 average production volumes (boe/d)(1)	2,300 to 2,500	**2,439**
D&D Capital expenditures(2) ($000)	20,000 to 24,000	**23,336**
Wells:		
Drilled	4 (3.35 net)	**4 (3.35 net)**
Completed	4 (3.35 net)	**4 (3.35 net)**

	2024 Guidance
2024 average production volumes (boe/d)	2,700 to 2,900
Capital expenditures(2) ($000)	26,000 to 28,000
Wells:	
Drilled	4 (3.5 net)
Completed	4 (3.5 net)

(1) The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. Refer to "Barrels of Oil Equivalent" section included in the "Advisories" section.
(2) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

RESULTS OF OPERATIONS

Operational and Financial Review

	Q4 2023	Q3 2023	Q4 2022	**2023**	2022
Production					
Heavy crude oil (bbls/d)	**1,342**	675	827	**917**	667
Natural gas liquids (bbls/d)	**75**	60	53	**64**	56
Natural gas (Mcf/d)	**10,310**	9,823	3,843	**8,749**	2,972
Total (boe/d)	**3,135**	2,372	1,520	**2,439**	1,218
Net income	**3,515**	20,907	747	**26,547**	5,237
Per share – basic(1)	**0.13**	0.77	0.03	**0.97**	0.18
Per share – diluted(1)	**0.12**	0.71	0.03	**0.91**	0.18
Cash flow from operating activities	**8,927**	175	4,809	**15,176**	9,347
Funds flow from operations(2)	**13,401**	4,826	3,236	**28,862**	8,612
Per basic share(1)(2)	**0.50**	0.18	0.11	**1.05**	0.30
Per basic diluted share(1)(2)	**0.45**	0.16	0.11	**0.99**	0.30
Adjusted working capital (net debt)(2)	**49,338**	44,937	14,149	**49,338**	14,149
Activity					
Capital expenditures ($000)(2)	**2,967**	15,238	4,988	**24,855**	17,101
Exploration and evaluation	**357**	246	-	**1,519**	-
Drilling and development	**2,610**	14,992	4,988	**23,336**	17,101
Wells drilled – Gross/(Net)	-	2 (1.60)	-	**4 (3.35)**	4 (3.50)
Wells completed – Gross/(Net)	-	4 (3.35)	-	**4 (3.35)**	4 (3.50)

(1) Per share metrics calculated using the weighted average common shares for the applicable period.
(2) Non-GAAP and other financial measures. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

Production

	Q4 2023	Q3 2023	Q4 2022	**2023**	2022
Canada					
Heavy crude oil (bbls/d)	**1,342**	675	827	**917**	667
Natural gas liquids (bbls/d)	**61**	47	51	**53**	55
Natural gas (Mcf/d)	**3,755**	3,317	3,273	**3,463**	2,828
Total Canada (boe/d)	**2,028**	1,275	1,423	**1,547**	1,193
Netherlands					
Natural gas liquids (bbls/d)	**14**	13	2	**11**	1
Natural gas (Mcf/d)	**6,555**	6,506	570	**5,285**	144
Total Netherlands (boe/d)	**1,107**	1,097	97	**892**	25
Total Company					
Heavy crude oil (bbls/d)	**1,342**	675	827	**917**	667
Natural gas liquids (bbls/d)	**75**	60	53	**64**	56
Natural gas (Mcf/d)	**10,310**	9,823	3,843	**8,749**	2,972
Total Company (boe/d)	**3,135**	2,372	1,520	**2,439**	1,218

Canada

- Quarterly production of 2,028 boe/d was higher than Q3 2023 due to the contributions from the four gross wells (3.35 net) during Q4 2024. The wells were drilled, competed, equipped and tied in as part of our 2023 drilling campaign which was commenced in Q3 2023. The newly producing wells contributed 750 boe/d to Q4 2023. Production increased over Q4 2022 due to our ongoing development of the Leduc-Woodbend field, including the contribution from our 2023 drilling program.
- Full year 2023 production volumes increased by 30% from 2022 as a result of the additional wells brought on production from the 2023 drilling program, partially offset by higher downtime in Q2 2023 to upgrade and maintain facilities, the temporary shut in of certain wells during Q3 2023 for frac operations and natural declines on base production.

Netherlands

- Q4 2023 production was up slightly from Q3 2023 with limited well work completed during the quarter. Both quarters were lower than full operational capability due to unexpected downtime on certain wells which lowered overall volumes delivered.
- Production for full year 2023 reached 892 boe/d. This rate encompasses the full year impact of the interest acquired in the Dutch North Sea in December 2022, along with six months of production from the XTO Acquisition. The latter contributed to our working interest ownership in the asset base as of July 2023. For 2022, production from the first acquisition was only accounted for as of late December 2022.

Net Income

Quarterly comparison

- Q4 2023 was lower than Q3 2023 based on the impacts of:
  - The increase in transaction costs recognized in Q4 2023 for specific M&A opportunities which were actively being negotiated during the quarter.
  - The absence of the gain on the XTO Acquisition recorded in the previous quarter.
  - Partially offset by higher production in Canada and income tax recoveries.

- Q4 2023 was higher than Q4 2022 based on the impacts of:
    - Incremental earnings from higher production from Canada and the income associated with the Netherlands upstream assets acquired in two transactions, the earlier of which was completed in late December 2022.
    - Incremental income earned through the acquisition of equity in NGT (accounted for as an investment in associate).

Year-over-year comparison

- The year-ended 2023 was higher than 2022 based on the impacts of:
    - The gain recorded on the XTO Acquisition that occurred in Q3 2023.
    - Increase in net income from the inclusion of the Dutch assets acquired in two separate transactions in late Q4 2022 and at the beginning of Q3 2023.
    - Partially offset by lower commodity prices for crude oil and natural gas in Canada and higher operating costs due to the addition of the Netherlands assets.
    - 2023 results included higher G&A and transaction costs arising from our ongoing corporate business development and recently completed acquisitions.

Benchmark Commodity Prices

	Q4 2023	Q3 2023	Q4 2022	**2023**	2022
Average Benchmark Prices					
WTI crude oil (US$/bbl)(1)	**78.83**	82.18	82.63	**77.62**	94.23
WCS differential (US$/bbl)(2)	**(21.94)**	(12.80)	(25.64)	**(17.68)**	(18.20)
US$/CAD$ exchange rate	**0.735**	0.746	0.737	**0.741**	0.769
WCS (CAD$/bbl)	**76.86**	93.12	77.39	**80.90**	98.53
AECO daily spot (CAD$/Mcf)	**2.30**	2.61	5.23	**2.64**	5.43
TTF (CAD$/Mcf)(3)	**18.52**	14.43	50.12	**17.72**	52.84
Average Realized Prices(4)					
Heavy crude oil ($/bbl)	**80.21**	91.77	90.04	**81.83**	101.79
Natural gas liquids ($/bbl)	**59.15**	62.86	65.75	**62.36**	72.96
Natural gas ($/Mcf)	**11.54**	9.96	10.41	**11.28**	7.21
Petroleum and natural gas sales ($/boe)	**73.71**	68.97	77.59	**72.85**	76.67

(1) WTI represents posting price of West Texas Intermediate (“WTI”) crude oil.
(2) WCS differential represents the difference between the average market price for the benchmark Western Canadian Select (“WCS”) heavy crude oil and WTI.
(3) TTF represents posting price of Title Transfer Facility (“TTF”) natural gas in the Netherlands.
(4) Supplementary financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

Tenaz currently sells its crude oil on a monthly index basis based on western Canadian benchmark prices and natural gas production based on AECO prices in Alberta and TTF prices in the Netherlands. The average realized price the Company receives for its crude oil and natural gas production depends on several factors, including the average benchmark prices for crude oil and natural gas, the US-to-Canadian dollar exchange rate and transportation and product quality differentials.

The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal crude oil benchmarks that Tenaz compares its oil price to are the WTI and WCS oil prices. The differential between WTI and WCS oil prices can be volatile due to several factors, including, but not limited to, downtime in North American refineries, rising domestic and international production, the US-to-Canadian dollar exchange rate, inventory levels in North America and scarcity of pipeline infrastructure or takeaway capacity connecting key consuming oil markets.

Quarterly comparison

- Q4 2023 commodity pricing was:
  - Lower than Q3 2023 for WCS with weakening WTI prices compounded with wider differentials. Weakening differentials arose due to delays in the commencement of TMX pipeline commissioning and resulting increase in heavy oil inventories.
  - Lower than Q3 2023 for AECO with a decline in pricing associated with lower Q4 2023 demand and a weaker outlook on the remaining winter heating demand.
  - Higher than Q3 2023 for TTF with an increase in pricing due to the start of the winter season despite nearly full inventory levels starting position.

- Q4 2023 commodity pricing was:
  - Consistent with Q4 2022 for WCS, with a decrease of the WTI pricing being offset by the narrowing of the WCS differential.
  - Lower than Q4 2022 for AECO, with a decrease driven by higher storage levels for natural gas in North America entering the winter withdrawal season.
  - Lower than Q4 2022 for TTF, with the normalization of pricing during 2023 following the extreme price volatility that arose in 2022 following the reduction of Russian supply of natural gas into Europe due to the invasion of Ukraine in Q1 2022.

- Consolidated realized prices were higher by 7% and lower by 5% when comparing to Q3 2023 and Q4 2022, respectively.

Year-over-year comparison

- The full year 2023 commodity pricing was:
  - Lower than 2022 for WCS in CAD terms with a decrease due to macro-economic driven demand concerns in world oil markets.
  - Lower than 2022 for AECO with a decrease driven by abundant gas supply from the Western Canadian Sedimentary Basin and anticipation of continuing high inventory levels in North America.
  - Lower than 2022 for TTF with continuing high storage levels caused by a warmer-than-normal winter and mandated gas conservation measures in Europe, creating less urgency for the refilling of storage. In addition, the first half of 2022 had significant supply uncertainty from the Russian invasion of Ukraine which led to a large price spike for European natural gas.
- Consolidated realized prices were 5% lower year-over-year due to the decrease in North American crude oil and natural gas prices, partially offset by the inclusion of our higher priced Netherlands production into our overall production mix.

Financial Review

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Sales					
Heavy crude oil	**9,900**	5,700	6,851	**27,380**	24,789
Natural gas liquids	**410**	345	319	**1,454**	1,479
Natural gas	**10,951**	9,006	3,682	**36,018**	7,819
Petroleum and natural gas sales	**21,261**	15,051	10,852	**64,852**	34,087
Royalties	**(1,699)**	(1,004)	(1,555)	**(4,856)**	(5,947)
Transportation expenses	**(1,010)**	(803)	(363)	**(3,165)**	(1,020)
Operating expenses	**(5,586)**	(6,789)	(3,015)	**(22,459)**	(8,308)
Midstream income(1)(2)	**1,400**	1,146	-	**4,364**	-
General and administrative expenses	**(1,452)**	(2,221)	(1,217)	**(7,384)**	(5,056)
Transaction costs	**(2,489)**	(841)	(932)	**(3,759)**	(2,684)
Interest and financing, net of income	**930**	614	-	**1,002**	(99)
Realized foreign exchange gain (loss)	**4**	(3)	(7)	**3**	(10)
Realized gain (loss) on derivatives	**301**	220	-	**602**	(1,824)
Current income taxes	**1,741**	(544)	(527)	**(338)**	(527)
Funds flow from operations(1)	**13,401**	4,826	3,236	**28,862**	8,612

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

Funds Flow from Operations

Quarterly comparison

- Q4 2023 was higher than Q3 2023 due to the impacts of:
  - Incremental revenue from Netherlands production coupled with higher TTF pricing in the current period.
  - Higher revenue in Canada driven by higher production but partially offset by weaker WCS and AECO pricing.
  - A recovery of current taxes recognized in the quarter resulting from increased deductions for the provision on future decommissioning costs which lowered full year Netherlands taxes.
  - Higher costs for G&A and transactions costs primarily related to increased levels of business development activity as compared to Q3 2023.

- Q4 2023 was higher than Q4 2022 based on the impacts of:
  - Additional after-tax funds flow from operations from the acquisitions of Netherlands production and midstream assets in late 2022 and at the beginning of Q3 2023.
  - Higher production and lower operating expense in Canada.
  - Partially offset by incremental G&A and transaction costs associated with business development activity and weaker crude oil and natural gas prices in Canada.

Year over year comparison

- The year-ended 2023 was higher than 2022 based on the impacts of:
  - Newly acquired Netherlands assets contributing additional revenue during 2023.
  - Increased production in Canada resulting from additional wells drilled during the year and continued strong performance from the production base.
  - Partially offset by reduced commodity prices in Canada and increased asset scope and incremental business development activity which increased G&A and transaction costs.

Operating Netback Summary

($/boe)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Canada					
Petroleum and natural gas sales	**59.41**	58.87	67.22	**57.28**	73.54
Royalties	**(9.10)**	(8.57)	(11.88)	**(8.60)**	(13.65)
Transportation expenses	**(2.71)**	(2.37)	(2.41)	**(2.75)**	(2.29)
Operating expenses	**(12.47)**	(18.02)	(18.13)	**(16.55)**	(17.59)
Canada operating netback(1)	**35.13**	29.91	34.80	**29.38**	40.01
Netherlands					
Petroleum and natural gas sales	**99.89**	80.70	229.94	**99.88**	233.23
Transportation expenses	**(4.97)**	(5.20)	(5.38)	**(4.95)**	(5.46)
Operating expenses	**(31.99)**	(46.31)	(71.83)	**(40.29)**	(72.97)
Midstream income(1)	**13.75**	11.35	-	**13.41**	-
Netherlands operating netback(1)	**76.68**	40.54	152.73	**68.05**	154.80
Total Company					
Petroleum and natural gas sales	**73.71**	68.97	77.59	**72.85**	76.67
Royalties	**(5.89)**	(4.60)	(11.12)	**(5.46)**	(13.38)
Transportation expenses	**(3.50)**	(3.68)	(2.60)	**(3.56)**	(2.29)
Operating expenses	**(19.36)**	(31.11)	(21.56)	**(25.23)**	(18.69)
Midstream income(1)	**4.86**	5.25	-	**4.90**	-
Total Company operating netback(1)	**49.82**	34.83	42.31	**43.50**	42.31

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

Total Company operating netback was higher in Q4 2023 than that of Q3 2023:

- Lower operating costs per boe in both Canada and Netherlands.
- Stronger TTF pricing and a higher production weighting to crude oil, both of which increased average realized price per boe for the Company. The year ended 2022 netback had limited contribution from the Netherlands because closing of the first Netherlands acquisition only occurred late in December 2022.
- Partially offset by weaker WCS and AECO prices.

Total Company operating netback was consistent in the year ended 2023 as compared to 2022 due to:

- Higher netback production from the Netherlands acquisitions completed in two separate transactions.
- Lower operating costs per boe in Canada driven by higher production rates which spread fixed costs over more units of production.
- And partially offset by weakness in WCS and AECO pricing during 2023.

Petroleum and Natural Gas Sales

($000 except per boe)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Petroleum and natural gas sales					
Canada	**11,086**	6,904	8,800	**32,342**	32,035
Netherlands	**10,175**	8,147	2,052	**32,510**	2,052
Total Company	**21,261**	15,051	10,852	**64,852**	34,087
Per boe					
Canada	**59.41**	58.87	67.22	**57.28**	73.54
Netherlands	**99.89**	80.70	229.94	**99.88**	233.23
Company	**73.71**	68.97	77.59	**72.85**	76.67

Quarterly comparison

- Higher sales in Q4 2023 as compared to Q4 2022 reflected the higher production in Canada including a higher proportion of crude oil as a result of new wells brought online from the 2023 drilling campaign. Partially offsetting the strong volume increase were lower prices for WCS and AECO in Q4 2023 versus Q4 2022.
- Realized prices per boe increased in Q4 2023 as compared to Q3 2023 on stronger prices in European gas and a higher proportion of crude oil, which has a higher price per boe than natural gas in Canada. Partially offsetting the increase in realized price was a decrease to both WCS and AECO in the most recent quarter.

Year-over-year comparison

- Higher sales year-over-year reflect the additional contributions from both the Netherlands acquisitions closed in December 2022 and July 2023. These impacts were partially offset by lower commodity prices in Canada.
- Sales for Canada for the year ended 2023 were similar to 2022 despite higher production due to a 18% decrease in WCS prices and 51% decrease in AECO prices.

Royalties

($000 except per boe)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Royalties					
Canada	**1,699**	1,004	1,555	**4,856**	5,947
Netherlands	**-**	-	-	**-**	-
Total Company	**1,699**	1,004	1,555	**4,856**	5,947
As a percentage of sales					
Canada	**15.3%**	14.5%	17.7%	15%	18.5%
Netherlands	**-**	-	-	**-**	-

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

- Q4 2023 royalty expense was higher than Q3 2023 both on a per boe and percentage of sales basis for Canada.
- The increase in royalties resulted from higher royalties on wells which fully utilized their capital allowances. In periods where wells are initially brought on production, certain of our wells with Alberta

Crown royalties have a reduced initial royalty rate to allow for recovery of the capital investment on those wells. Following that initial period, the wells revert to a higher royalty rate which increases the percentage of revenue paid in overall royalties for Canadian production.

- Royalties for the year ending December 2023 were lower than for the comparable periods in 2022, which had higher average royalty rates on Crown lands where the royalty rates vary with product reference price, well production rates and the vintage of wells coming off royalty holidays.

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

Transportation Expenses

($000 except per boe)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Transportation expenses					
Canada	**505**	278	315	**1,553**	972
Netherlands	**505**	525	48	**1,612**	48
Total Company	**1,010**	803	363	**3,165**	1,020
Per boe					
Canada	**2.71**	2.37	2.41	**2.75**	2.23
Netherlands	**4.97**	5.20	5.38	**4.95**	5.46
Company	**3.50**	3.68	2.60	**3.56**	2.29

Quarterly comparison

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

Year-over-year comparison

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

Operating Expenses

($000 except per boe)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Operating expenses					
Canada	**2,328**	2,113	2,374	**9,346**	7,667
Netherlands	**3,258**	4,676	641	**13,113**	641
Total Company	**5,586**	6,789	3,015	**22,459**	8,308
Per boe					
Canada	**12.47**	18.02	18.13	**16.55**	17.59
Netherlands	**31.99**	46.31	71.83	**40.29**	72.97
Company	**19.36**	31.11	21.56	**25.23**	18.69

Quarterly comparison (Canada)

- Operating expense for Q4 2023 was marginally higher than Q3 2023 and slightly lower than the same period in 2022, despite a significant increase in production rates during the most recent quarter. The Q4 2023 expense reflects higher field labour, and additional gas processing charges and chemical usage from higher production but is partially offset with lower electricity prices during the 2023 period.

Quarterly comparison per boe (Canada)

- Operating expense per boe for Q4 2023 was $12.47/boe, a decrease of 31% from both Q3 2023 and Q4 2022.
- On a per unit basis, Q4 2023 expenses were lower when compared to Q3 2023 and Q4 2022 as the significant increase in production volumes were allocated over relatively consistent fixed costs, as well as lower maintenance activity.
- On a per unit basis Q4 2023 expenses also benefited from lower electricity prices year-over-year.

Quarterly comparison (Netherlands)

- Operating costs in Q4 2023 were lower than in Q3 2023 due to additional charges for the compressor maintenance incurred in the Q3 2023.
- Q4 2022 is not comparable with the 2023 periods as only a small portion of December 2022 results from the first Netherlands acquisition was recorded due to the timing of closing of the transaction.

Quarterly comparison per boe (Netherlands)

- Operating expense on a per boe basis in Q4 2023 was lower than in the prior quarter, reflecting the decrease in absolute costs pertaining to the Q3 compressor maintenance in combination with higher production for Q4 2023.

Full year comparison (Canada)

- Operating expense for 2023 was $9.3 million, an increase of 22% from $7.7 million in 2022.
- Operating expense was higher than the prior-year because of carbon taxes, planned facility maintenance, and additional variable operating costs associated with higher production volumes, primarily labour, gas processing, and consumables.

Full year comparison per boe (Canada)

- Operating expense for 2023 was $16.55/boe, 6% lower than the prior year.
- Operating expenses improved year-over-year on higher production volumes which decreased fixed field costs per boe. In addition, lower well servicing and facility expenses were realized on a per boe basis from enhancements to the design of lifting equipment and improvements in facility performance following upgrades that were completed mid-year.

Other (Income) Expenses

($000 except per boe)	**Q4 2023**	Q3 2023	Q4 2022	2023	2022
Transaction costs	**2,489**	841	932	3,759	2,684
Income from associate[(1)]	**(543)**	(1,146)	-	(3,507)	-
Interest and financing, net of income	**(930)**	(614)	103	(1,002)	99

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

Transaction Costs

The costs incurred in both the most recent and preceding quarter primarily stem from professional services, encompassing legal and tax advisory expenses, along with costs associated with technical and financial due diligence. Tenaz classifies these expenses as transaction costs once an opportunity advances beyond the offer stage. At the offer stage of a process, the Company anticipates that the costs incurred are more likely to be directly linked to the specific opportunity rather than the routine activities of the Company.

The differentiation between General and Administrative expenses and transaction costs seeks to present the ongoing operational costs of Tenaz and the execution of its strategy, distinct from the costs tied to specific opportunities that may ultimately result in completed transactions. This approach allows for a transparent delineation between the routine operational expenses of the Company and the costs associated with pursuing and finalizing distinct business opportunities.

Income from Associate

Tenaz recognizes its proportionate share of the net income of its affiliate Noordgastransport BV (“NGT”) in income. NGT is a company that owns and operates one of the three main pipeline networks servicing the Dutch North Sea (“DNS”) for gathering and processing of natural gas. For Tenaz’s interest in NGT, we recognized $3.5 million of after-tax earnings for the year ended December 31, 2023. The primary revenue stream for NGT includes tariffs and throughput-based recoveries for its pipeline network from upstream producers of natural gas in its operating area. The combination of the upstream working interest and the equity interest in NGT results in economic benefits from the wellhead to onshore delivery to the European natural gas market for our share of production. The ultimate realization of earnings to cash is completed through dividend payments (annually in recent periods).

Interest and Financing Expenses, Net of Income

2023 periods reflect interest income from our positive cash position, including both the restricted and unrestricted balances, which bear interest at market interest rates. Q4 2022 and full year 2022 interest charges were incurred for the cost of borrowing under our revolving credit facilities. which were drawn to facilitate the posting of decommissioning security for the DNS assets. The decommissioning security was reduced under the terms of the agreements on February 28, 2023, after which, Tenaz fully repaid its borrowings under the credit facilities.

General and Administrative Expenses ("G&A")

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Gross G&A	**1,751**	2,538	1,443	**8,574**	5,897
Capitalized G&A and overhead recoveries	**(299)**	(317)	(226)	**(1,190)**	(841)
Net G&A	**1,452**	2,221	1,217	**7,384**	5,056

Quarterly comparison

- Q4 2023 was lower than Q3 2023, primarily due to the absence of additional costs incurred during Q3 2023 that were specifically related to establishing the Netherlands business unit. Furthermore, the decline can be attributed to active business development activities being classified as transaction costs during the quarter.
- Q4 2023 was higher than Q4 2022 as a result of additional G&A for the Netherlands assets acquired in Q4 2022 and for the recently closed acquisition in July 2023.

Year-over-year comparison

- G&A expenses for the year-ended 2023 increased over the prior year in part due to increased costs for the expanding asset portfolio, including the number of legal entities, and additional services required for carrying on business in multiple jurisdictions.
- Higher average number of contract and full-time staff increased G&A-related labour costs as the scope of our operations increases coupled with inflation in wages and other administrative costs.
- Continued focus on business development activities contributed to increases with higher spending on contract professional and legal services.

Realized Gain (Loss) on Derivative Instruments

The Company has a risk management program in place with the objectives of reducing the volatility of crude oil and natural gas sales, increasing the certainty of funds flow from operations, protecting development economics, and reducing foreign currency risk.

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

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Commodity contracts	**143**	(72)	-	**243**	(1,423)
Foreign currency swaps	**158**	292	-	**359**	(401)
Realized gain (loss) on derivatives	**301**	220	-	**602**	(1,824)

A summary of the derivative instruments in place as at December 31, 2023 are shown in the "Unrealized Gain (Loss) on Derivative Instruments" section below.

Net Income and Funds Flow from Operations

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

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Funds flow from operations[1]	**13,401**	4,826	3,236	**28,862**	8,612
Unrealized foreign exchange gain	**(929)**	536	334	**(310)**	334
Unrealized gain (loss) on derivatives	**407**	(955)	(476)	**(361)**	124
Share-based compensation expense	**(590)**	(568)	(287)	**(1,858)**	(1,268)
Depletion, depreciation and amortization	**(6,583)**	(5,031)	(1,837)	**(19,962)**	(6,433)
Amortization of fair value increment recognized on acquisition of NGT	**(857)**	-	-	**(857)**	-
Impairment	-	-	-	-	4,240
Accretion of decommissioning liability	**(1,514)**	(1,755)	(92)	**(5,505)**	(241)
Deferred tax expense	**2,310**	1,073	(131)	**5,887**	(131)
Gain on acquisition	**(2,130)**	22,781	-	**20,652**	-
Net income	**3,515**	20,907	747	**26,547**	5,237

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

Share-based Compensation

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Share-based compensation:					
Stock Option Plan	**135**	178	256	**638**	1,278
Tenaz Incentive Plan	**527**	468	48	**1,409**	64
Total share-based compensation	**662**	646	304	**2,047**	1,342
Capitalized share-based compensation	**(72)**	(78)	(17)	**(189)**	(74)
Share-based compensation expense	**590**	568	287	**1,858**	1,268

The Company has in place a shareholder approved Tenaz Incentive Plan (the “TIP”) pursuant to which the Company is able to issue share-based long-term incentives to directors, officers, employees and independent contractors of the Company and/or its affiliates. The types of awards available under the TIP include stock options, restricted share units (“RSUs”), performance share units (“PSUs”), deferred share units (“DSUs”) and dividend-equivalent rights (collectively, “Awards”).

Share-based compensation expense was consistent from Q4 to Q3. In Q2 2023, the Company issued 830,000 PSUs to officers and employees of the Company, 42,500 DSUs to Directors of the Company and 65,000 RSUs to Directors, employees and contractors of the Company with a grant date fair value of $2.10 per award using a 5-day volume weighted average price. The PSUs and RSUs vest over a period of one to three years and DSUs vest immediately upon granting.

Depletion, Depreciation and Amortization (“DD&A”)

DD&A for Q4 2023 and YTD 2023 increased as compared to both comparable periods in 2022 due to incremental depletion from the Netherlands assets acquired in December 2022 and July 2023.

Impairment

During the fourth quarter of 2023, our Netherlands Cash Generating Unit (“CGU”) exhibited indicators of impairment, primarily stemming from a sustained decline in the forward gas benchmark prices (“TTF”) observed throughout the reporting period. In response to this impairment indicator, the Company conducted an assessment of the carrying amounts associated with the CGU as of December 31, 2023.

Based on the assessment conducted in accordance with IAS 36 the Company determined that the recoverable amount, determined based on the value-in-use methodology, exceeds the carrying value of the CGU's assets. Consequently, no impairment was recorded in the financial statements for the year ending December 31, 2023.

Gain on XTO Acquisition

On July 3, 2023, Tenaz closed the acquisition of XTO Netherlands Ltd., increasing our position in the DNS by nearly doubling our working interest in the primary producing fields in which we participate today. The XTO Acquisition also increased our ownership in the NGT midstream assets to 21.4%, making Tenaz the second-largest shareholder in NGT.

The preliminary purchase price allocation under IFRS resulted in an estimated gain on acquisition of $20.7 million The gain was due to the fair value of the assets acquired, including a significant cash position, exceeding the fair value of the decommissioning liabilities assumed.

Accretion of Decommissioning Liability

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

The increase in accretion for 2023 as compared to 2022 is mainly due to additional accretion from the Netherlands decommissioning liability acquired on December 20, 2022 and July 3, 2023.

Unrealized Gain (Loss) on Derivative Instruments

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

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Commodity contracts	**(57)**	177	(48)	**48**	552
Foreign currency swaps	**464**	(1,132)	(428)	**(409)**	(428)
Unrealized gain (loss) on derivatives	**407**	(955)	(476)	**(361)**	124

The unrealized derivative gain in Q4 2023 pertains primarily to changes in the mark-to-market of foreign currency swaps outstanding in Q4 2023 arising from the differences in the forward price compared to the contract price of outstanding contracts. Tenaz holds this position to maintain Euro as the primary underlying cash position. Excess Euro cash is swapped to Canadian dollars in order to maximize the interest yield on short term balances held within its bank accounts.

The following is a summary of the derivative instruments in place as at December 31, 2023:

Foreign Currency Swaps

Period	**Type of Contract**	**Notional Amount**	**Notional Amount**	**Average Rate**	**Fair Value at December 31 2023** ($000)
Foreign Currency Swaps					
January 2024	Swap	EUR 34,000,000	CAD 50,320.000	1.4800	(812)
January 2024	Swap	EUR (1,000,000)	CAD (1,465,950)	1.4660	4
January 2024	Swap	EUR (33,000,000)	CAD (48,477,000)	1.4690	234
February 2024	Swap	EUR 33,000,000	CAD 48,543,000	1.4710	(264)
Derivative instrument liability					(838)

Crude Oil and Natural Gas Contracts

In addition to financial hedges, Tenaz enters into physical commodity sales arrangements from time-to-time. In Q4 2024, Tenaz executed fixed price arrangements for 2.5 MMcf/d of European Gas production for Q1 2024 with a physical swap at €55.75/MWh ($24.12/Mcf). Also in Q4 2024, Tenaz executed fixed price arrangements for a further 1.2 MMcf/d of European Gas production through summer 2024 (April-September) with a physical swap at €34.00/MWh ($14.58/Mcf).

Income Taxes

The Company's income taxes are detailed below:

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Income Taxes					
Current	**(1,741)**	544	527	**338**	527
Deferred	**(2,310)**	(1,073)	131	**(5,887)**	131
Total income tax expense (recovery)	**(4,051)**	(529)	658	**(5,549)**	658
Current Income Taxes					
Canada	**-**	-	-	**-**	**-**
Netherlands	**(1,741)**	544	527	**338**	527
Total Company	**(1,741)**	544	527	**338**	527

Current Taxes

For the year ended December 31, 2023, Tenaz recorded current income tax expense of $0.3 million related to our Netherlands upstream assets. In the Netherlands, a 50% effective income tax rate is applied to taxable profit from upstream oil and gas activity. In calculating taxable profit, an additional 10% uplift deduction is applied to decrease taxable profit from certain deductions, including operating, general and administrative, depletion and decommissioning costs.

The lower full year 2023 taxes resulted from an increase in the tax provision on decommissioning liabilities deducted for taxable income. Netherlands taxable income deducts the impact of the future decommissioning liabilities using an accrual basis similar to that used under IFRS, and an increase in the estimated future costs results in a taxable deduction in the period of the change in estimate.

Deferred Taxes

Tenaz recognized a deferred tax recovery for the quarter and full-year periods due to the unwinding of accounting differences in Netherlands arising from the current quarter DD&A and accretion expense.

Capital Expenditures

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
By classification					
Exploration and evaluation	**357**	246	-	**1,519**	-
Drilling and development	**2,610**	14,992	4,988	**23,336**	17,101
Capital expenditures(1)	**2,967**	15,238	4,988	**24,855**	17,101
By country					
Canada	**963**	13,195	4,988	**18,982**	17,101
Netherlands	**2,004**	2,043	-	**5,873**	-
Capital expenditures(1)	**2,967**	15,238	4,988	**24,855**	17,101
By category					
Geological and geophysical	**(47)**	20	6	**12**	45
Land	**388**	11	24	**501**	307
Drilling and completions	**1,038**	12,481	2,912	**16,619**	13,410
Workovers and recompletions	**1,722**	1,772	180	**3,665**	221
Equipping and tie-in	**51**	592	674	**1,077**	1,505
Facilities and pipelines	**(546)**	230	1,239	**1,358**	1,683
Carbon capture and storage project	**357**	193	-	**1,519**	-
Other	**4**	(61)	(47)	**104**	(70)
Capital expenditures(1)	**2,967**	15,238	4,988	**24,855**	17,101

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

Capital activity during Q4 2023 at Leduc-Woodbend included land acquisition, expansion of water injection capacity, and two capitalized workovers. Capitalized costs in the Netherlands were associated with well workovers (including installation of downhole sand screens), replacement of a sub-surface safety valve, seismic reprocessing, and facility debottlenecking.

Capital activity for the full year 2023 included the drilling, completion, equipping and tie-in of four wells (3.35 net), production battery turnarounds and upgrades, expanded water injection capabilities, and land acquisition costs at Leduc-Woodbend. Capitalized costs in the Netherlands pertained to well workovers (including installation of downhole sand screens), replacement of a sub-surface safety valve, seismic reprocessing, and facility debottlenecking.

Expenditures in E&E for Netherlands consist primarily of Pre-FEED activity for the L10 CCS project. Spending towards studies and engineering continues as the group of partners works towards a decision in the future for FID.

Impairment

At December 31, 2023, the Company determined there to be indicators of impairment in its Netherlands CGU due to a sustained decline in the forward gas benchmark prices (TTF) during the current reporting period. As a result of this indicator of impairment, management has performed an assessment of the carrying amounts of its oil and gas assets to determine whether any impairment exists.

The estimated Netherlands recoverable amount for the Netherlands CGU was based on the proved and probable reserve values from Tenaz's December 31, 2023 reserve report prepared by its independent third-party reserve evaluator, using forecast commodity prices at December 31, 2023, forecast operating expenses and future development costs. The estimated recoverable amount was determined to be value in use and was based on after-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Netherlands CGU, excluding decommissioning obligations. The after-tax discount rate used in the valuation as at December 31, 2023 was 10% (pre-tax 21.7%). The impairment test concluded that the recoverable amount of the Netherlands CGU exceeds the carrying value and accordingly there is no impairment.

The Company prepared sensitivities to determine what impact a change the key assumptions would have on the result of the impairment test. The estimated value in use for the Company's Netherland CGU was sensitive to an increase in the discount rate. An increase to the discount rate by 1% would result in an impairment in the CGU of $1 million.

Acquisitions

2022 Acquisition

On December 20, 2022, Tenaz announced the closing of the acquisition of 100% of the issued and outstanding shares of a private company with Netherlands upstream and midstream assets (the "2022 Acquisition"), acquiring all of the private company's issued and outstanding shares in exchange for $3.3 million consideration payable to the vendor in early 2023, and based on the private company's surplus working capital as at November 1, 2022. The payable to the vendor was settled in 2023. As part of the acquisition, excluding the effect of restricted cash which was applied for decommissioning security for the acquired company's decommissioning liability, Tenaz acquired $1.8 million in cash.

During the current period, the Company finalized the estimates of fair value of the net assets acquired, resulting in a decrease of $9.1 million to deferred tax liability, an increase in accounts payable of $0.2 million and a decrease in exploration and evaluation assets of $9.2 million. The prior year comparative information has been restated to reflect these adjustments. The adjustments arose primarily from the finalization of applicable exploration and evaluation asset valuation and income tax pool balances.

XTO Acquisition

In 2023, Tenaz completed the XTO Acquisition acquiring all of the private company's issued and outstanding shares in exchange for $1 cash plus the net settlement of working capital of $0.2 million. The payable to the vendor was settled in September 2023. As part of the XTO Acquisition, Tenaz acquired a further restricted cash position of $15.1 million (€10.4 million) on July 3, 2023. The restricted cash is decommissioning security required pursuant to the decommissioning security agreements ("DSAs") for the assets acquired.

The XTO Acquisition resulted in a $20.7 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 fair 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 XTO.

Decommissioning Liability

At December 31, 2023, Tenaz's decommissioning liability was $45.2 million (December 31, 2022 - $30.4 million) for the future abandonment and reclamation of Tenaz's properties. The estimated decommissioning liability includes cost assumptions for costs to abandon wells or reclaim property and the time frame in which such costs will be incurred, as well as annual inflation factors used to calculate the undiscounted total future liability. The increase in the decommissioning liability resulted from decommissioning liability acquired in the XTO acquisition, the recognized accretion expense and change on discount rates offset by changes in abandonment timing and costs, settlements and a strengthening of the Canadian dollar versus the Euro which decreased the reported amount on the balance sheet.

The calculation of decommissioning liability applied the following rates:

	December 31 2023		December 31 2022	
Country	**Inflation**	**Credit-adjusted risk-free rate**	Inflation	Credit-adjusted risk-free rate
Canada	**1.6%**	**12.2%**	1.4%	15.1%
Netherlands	**2.0%**	**11.5%**	2.9%	14.7%

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

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

Tenaz incurred $9.0 million on decommissioning activities for the year ended 2023. Decommissioning activities in Netherlands totaled $8.7 million and were related to the abandonment of wells in depleted fields. In Canada, Tenaz executed downhole abandonment activities on legacy wells totaling $0.3 million.

CAPITAL RESOURCES AND LIQUIDITY

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

($000)	**December 31 2023**	December 31 2022[(2)]
Current assets	**92,488**	72,317
Current liabilities	**(43,988)**	(58,644)
Net current assets	**48,500**	13,673
Exclude fair value of derivative instruments	**838**	476
Adjusted working capital (net debt)[(1)]	**49,338**	14,149

(1) Non-GAAP and other financial measures. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A..
(2) Restated for impact of adjustment of prior year PPA adjustment.

The Company’s policy is to maintain a strong capital base to enhance investor, creditor and market confidence and to sustain the future development of the business. Tenaz's adjusted working capital of $49.3 million as at December 31, 2023 increased from $14.0 million as at December 31, 2022. The improved working capital position resulted mainly from acquired working capital from the XTO acquisition completed in Q3 2023. Restricted cash is included within current assets on the consolidated balance sheet as security, currently in the form of cash, placed under the DSAs are replaceable with other forms of security including letters of credit, and other guarantees as long as the credit rating is greater than A- equivalent. The redetermination of the required security for each license is reassessed annually by the joint venture participants with new security required to be posted by the end of February each year.

Restricted Cash

At December 31, 2023, Tenaz held restricted cash of $32.9 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) restricted cash).

Under the DSAs, decommissioning security is calculated annually and posted by parties to licenses which have calculated that a net security amount exists. Net security amounts are calculated by estimating the discounted future cash flows from the licenses and measuring that future value against the estimated future decommissioning costs times a risk factor. 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 acquisition, Tenaz recognized a further $15.1 million (€10.4 million) restricted cash deposit on July 3, 2023. DSA update was performed by the operator effective February 2024 resulting in additional cash security posted of €3.7 million. As at March 28th, 2024 the Company holds restricted cash of $38.5 million (€26.2 million).

Credit Facilities

Bank debt is comprised of the following:

As at ($000)	**December 31** **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 December 31, 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 May 31, 2024.

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 December 31, 2023, the Company was in compliance with all debt covenants. The working capital ratio as defined was 2.38:1 and the Company was compliant with the LMR covenant (9.28 at March 2, 2024).

Liquidity Risk

Liquidity risk is the risk that Tenaz will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through its capital management and an actively managed operating and capital expenditure budgeting process.

Accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Credit Facilities, if any, are due on demand. At December 31, 2023, Tenaz had a current tax liability of $24.9 million related to the Netherlands operation, which is net of instalments paid to the Dutch Tax Authority. The current tax liability consists of a receivable of $2.1 million related to corporate income tax (“CIT”) and state profit share (“SPS”) along with $27.0 million owing as part of the temporary solidarity contribution imposed by the European Union. The Solidarity contribution is a tax on excess profits of energy companies due to the high price environment in 2022 and not payable until May 31, 2024.

The decommissioning security, currently held in restricted cash, can be provided in various acceptable forms, such as letters of credit and decommissioning surety bonds. The Company can access the restricted cash at the point in time another acceptable from of security has been provided. The calculation of required security is determined through agreed-upon calculations within the DSAs. As decommissioning activities progress, the necessary security amounts required by license holders are reduced.

As at December 31, 2023, the Company was holding $50.3 million in cash and cash equivalents, $32.9 million (€22.2 million) in restricted cash and had $10 million available on undrawn Credit Facilities.

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

Shareholders’ Equity

Tenaz had the following outstanding instruments as at the years ended:

	December 31 2023	December 31 2022
Common Shares (000’s)	**26,793**	28,093
Warrants (000’s)	**2,778**	2,778
Options (000’s)	**1,525**	1,531
TIP Awards (000’s)		
PSUs	**1,008**	180
RSUs	**65**	-
DSUs	**43**	-

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

	Number of Common Shares (000’s)
Balance, December 31, 2022	**28,093**
Normal course issuer bid	**(1,300)**
Balance, December 31, 2023	**26,793**

Share Repurchases

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence an initial normal course issuer bid (“NCIB”). The NCIB allowed Tenaz to purchase up to 2.6 million 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 1.2 million Common Shares.

On August 21, 2023, the Toronto Stock Exchange approved the Company to commence an NCIB. The NCIB allows Tenaz to purchase up to 2.5 million 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.

During the year-ended December 31, 2023, Tenaz purchased 1.3 million Common Shares under the NCIB for a total consideration of $3.9 million. The Common Shares purchased under the NCIB were cancelled following settlement of the transactions.

($000, except as noted)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Share repurchase activities					
Common Shares repurchased (000's)	**(352)**	(233)	(312)	**(1,300)**	(455)
Amounts charged to:					
Share capital	**(794)**	(529)	(710)	**(2,956)**	(1,034)
Retained earnings	**(646)**	(287)	211	**(910)**	280
Share repurchase cost	**(1,440)**	(816)	(499)	**(3,866)**	(754)
Average cost per share ($)	**4.09**	3.51	1.60	**2.97**	1.66

Tenaz Incentive Plan Awards

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

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

	March 28 2024
Common Shares (000's)	**26,706**
Warrants (000's)	**2,778**
Options (000's)	**1,525**
TIP Awards (000's)	**1,108**
PSUs	**988**
RSUs	**71**
DSUs	**49**

SUMMARY OF QUARTERLY RESULTS

Quarters Ended ($000, except per share and per boe amounts)	**Q4 2023**	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Financial								
Petroleum and natural gas sales[4]	**21,261**	15,051	10,614	17,926	10,852	7,690	9,344	6,201
Cash flow from operating activities	**8,927**	175	957	5,117	4,809	1,444	1,936	1,158
Funds flow from operations[1][6]	**13,401**	4,826	3,361	7,274	3,236	2,280	2,104	992
Per share - basic[1	**0.50**	0.18	0.12	0.26	0.11	0.08	0.07	0.03
Per share - diluted[1	**0.45**	0.16	0.12	0.25	0.11	0.08	0.07	0.03
Net income (loss) [6]	**3,515**	20,907	(757)	2,882	747	224	769	3,497
Per share - basic	**0.13**	0.77	(0.03)	0.10	0.03	0.01	0.03	0.12
Per share - diluted[2][3]	**0.12**	0.71	(0.03)	0.10	0.03	0.01	0.03	0.12
Capital expenditures[1][7]	**2,967**	15,238	5,967	683	4,988	7,882	3,512	719
Adjusted working capital (net debt)[1]	**49,338**	44,937	17,094	18,763	14,149	13,887	19,431	20,995
Common shares outstanding (000)								
End of period - basic	**26,793**	27,145	27,378	27,733	28,093	28,405	28,548	28,458
Weighted average for period - basic	**26,963**	27,292	27,555	27,917	28,242	28,520	28,481	28,457
Weighted average for period - diluted	**29,970**	29,555	28,308	28,545	28,244	28,690	29,241	29,361
Operating								
Average daily production								
Heavy crude oil (bbls/d)	**1,342**	675	711	937	827	687	636	515
Natural gas liquids (bbls/d)	**75**	60	57	63	53	47	61	62
Natural gas (Mcf/d)	**10,310**	9,823	6,802	8,022	3,843	2,929	2,524	2,579
Total (boe/d)[3][4]	**3,135**	2,372	1,903	2,337	1,520	1,222	1,117	1,007
Netbacks ($/boe)[3]								
Petroleum and natural gas sales[5]	**73.71**	68.97	61.31	85.23	77.59	68.39	91,90	68.44
Royalties	**(5.89)**	(4.60)	(4.80)	(6.28)	(11.12)	(15.23)	(17.11)	(10.38)
Transportation expenses	**(3.50)**	(3.68)	(3.66)	(3.41)	(2.60)	(1.75)	(3.12)	(1.57)
Operating expenses	**(19.36)**	(31.11)	(28.25)	(24.69)	(21.56)	(17.04)	(14.47)	(21.02)
Midstream income[1]	**4.86**	5.25	5.21	4.36	-	-	-	-
Operating netback[1]	**49.82**	34.83	29.81	55.21	42.31	34.37	57.20	35.47

(1) Non-GAAP and other financial measures. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(2) Basic weighted average shares are used to calculate diluted per share amounts when the Company is in a loss position.
(3) The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. Refer to "Barrels of Oil Equivalent" section included in the "Advisories" section of the MD&A.
(4) Over the past eight quarters, Tenaz's petroleum and natural gas sales fluctuated due to changes in production (including the timing of acquisitions and dispositions), volatility in benchmark commodity prices and realized pricing. Tenaz's production has fluctuated due to changes in capital expenditures, the Netherlands acquisitions in December 2022 and July 2023, dispositions, voluntary shut-ins and subsequent reactivations and natural declines.
(5) Net income (loss) has fluctuated over the past eight quarters mainly due to the gain on the Netherlands acquisition in July 2023, changes in impairment and impairment reversals, changes in operating netback, derivative instrument gains and losses (which fluctuate with changes in future market prices), gains on dispositions, transaction costs incurred, share-based compensation, general and administrative expenses and income taxes recognized.
(6) Funds flow from operations has fluctuated over the past eight quarters, primarily due to fluctuations in operating netback, general and administrative expenses, transaction costs incurred, realized derivative instrument gains and losses, and current income taxes recognized.
(7) Capital expenditures have also fluctuated throughout the above periods due to changes in the Company's capital spending levels which vary based on several factors, including the prevailing commodity price environment, capital resources, availability of alternative investment opportunities and the timing of dispositions.

SELECTED ANNUAL INFORMATION

($000, except per share and per boe amounts)	**2023**	2022[4]	2021
Financial			
Petroleum and natural gas sales	**64,852**	34,087	17,830
Cash flow from operating activities	**15,176**	9,347	3,945
Funds flow from operations[1]	**28,862**	8,612	3,499
Per share – basic[1][2]	**1.05**	0.30	0.24
Per share – diluted[1][2]	**0.99**	0.30	0.24
Net income (loss)	**26,547**	5,237	8,339
Per share – basic[2]	**0.97**	0.18	0.57
Per share – diluted[2]	**0.91**	0.18	0.56
Capital expenditures[1]	**24,855**	17,101	10,391
Total assets	**238,715**	194,740	75,401
Total liabilities	**142,362**	123,369	10,086
Adjusted working capital (net debt)[1]	**49,338**	14,149	20,688
Common Shares outstanding (000)			
End of period – basic[2]	**26,793**	28,093	28,438
Weighted average for the period – basic[2]	**27,429**	28,424	14,718
Weighted average for the period – diluted[2]	**29,053**	28,878	14,876
Operating			
Average daily production			
Heavy crude oil (bbls/d)	**917**	667	506
NGLs (bbls/d)	**64**	56	65
Natural gas (Mcf/d)	**8,749**	2,972	2,666
Total (boe/d)[3]	**2,439**	1,218	1,015
($/boe)[3]			
Petroleum and natural gas sales	**72.85**	76.67	48.12
Royalties	**(5.46)**	(13.38)	(5.60)
Transportation expenses	**(3.56)**	(2.29)	(1.99)
Operating expenses	**(25.23)**	(18.69)	(13.43)
Midstream income	**4.90**	-	-
Operating netback[1]	**43.50**	42.31	27.10

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(2) On December 23, 2021, the Company completed a 10 to 1 common share consolidation. All per share and common share values have been presented on a post-consolidation basis.
(3) The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. Refer to "Barrels of Oil Equivalent" section included in the "Advisories" section of the MD&A.
(4) Restated for impact of adjustment of prior year PPA adjustment

Tenaz's petroleum and natural gas sales over the past three years fluctuated due to volatility in benchmark commodity prices and realized pricing, including the impact of the COVID-19 pandemic, and changes in production. Tenaz's production has fluctuated due to changes in capital expenditures, dispositions, voluntary shut-ins and subsequent reactivations, and natural declines.

Net income (loss) has fluctuated over the past three years mainly due to changes in impairment and impairment reversals, changes in operating netback, derivative instrument gains and losses (which fluctuate with changes in future market prices), gains on dispositions, transaction costs incurred, share-based compensation, general and administrative expenses and income taxes recognized.

Funds flow from operations has fluctuated over the past three years, primarily due to fluctuations in operating netback, general and administrative expenses, transaction costs incurred, realized derivative instrument gains and losses, and current income taxes recognized.

Capital expenditures have also fluctuated throughout the above periods due to changes in the Company's capital spending levels which vary based on a number of factors, including the prevailing commodity price environment, capital resources, availability of alternative investment opportunities and the timing of dispositions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Tenaz has contractual obligations in the normal course of operations including operating agreements, transportation commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact Tenaz's cash flows in an ongoing manner.

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

OFF BALANCE SHEET ARRANGEMENTS

Tenaz does not have any off-balance sheet arrangements that would result in a material change to its financial position, performance or funds flow from operations during the reporting periods.

RELATED PARTY TRANSACTIONS

Key management personnel compensation

Tenaz's key management personnel consists of its officers and directors. Short-term benefits are composed of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the Stock Option Plan and the TIP. The compensation relating to key management personnel is as follows:

($000)	**Year ended December 31, 2023**	Year ended December 31, 2022
Short-term benefits	2,865	2,844
Share-based compensation	1,542	1,248
	4,407	4,092

ACCOUNTING STANDARDS, CHANGE IN ACCOUNTING POLICIES AND PRONOUNCEMENTS

Tenaz's audited consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. There was no material change in accounting policies for the year ended December 31, 2023.

A summary of material accounting policies can be found in Note 3 to the annual consolidated financial statements for the year ended December 31, 2023.

Future Accounting Pronouncements

The Company monitors for new accounting standards and amendments to existing accounting standards issued by the IASB. To date, such developments are concluded to either not be applicable or concluded to not have a future material impact on the Company's financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

A summary of Tenaz's critical judgments, estimates and assumptions can be found in Note 5 to the annual consolidated financial statements for the year ended December 31, 2023, which includes:

- Crude oil, condensate, natural gas, and natural gas liquids reserve and contingent resources;
- Recoverability of asset carrying amounts;
- Nature of crude oil and natural gas investments;
- Determination of exploration and evaluation assets;
- Determination of provisions and contingent liabilities;
- Determination of decommissioning liabilities;
- Determination of share-based compensation;
- Determination of income taxes;
- Determination of fair value estimates in business combinations; and

RISK FACTORS AND RISK MANAGEMENT

Tenaz monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Tenaz maintains a level of liability, and property insurance, which is believed to be adequate for the Company's size and activities but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims.

Natural disasters, wars, terrorist attacks, riots or civil unrest, could materially and negatively impact the Company's business, its revenues and ultimately its profitability. Such events or occurrences may have a materially negative affect on one or more factors upon which the Company's business relies, including without limitation the demand for, and therefore the price of, the natural resource products produced by the Company, supply chains operate its business, and the availability of capital required by the Company to fund its operations.

See "Forward-Looking Information" in this MD&A and "Risk Factors" in Tenaz's most recently filed AIF information, available on SEDAR+ at www.sedarplus.ca, for additional information.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures (DC&P)

As of December 31, 2023, Tenaz conducted evaluation of the effectiveness of Tenaz's DC&P as defined in Canada by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that Tenaz files or submits under securities legislation is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms therein. DC&P include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by Tenaz in the reports that it files or submits under securities legislation is accumulated and communicated to Tenaz's management as appropriate to allow timely decisions regarding the required disclosure.

Internal Control over Financial Reporting ("ICFR")

ICFR generally is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS, and includes policies and procedures pertaining to the maintenance of records and that are designed to provide reasonable assurance (i) that transactions are recorded to permit the preparation of financial statements and receipts and expenditures are made within corporate authorizations, and (ii) regarding the prevention or timely detection of unauthorized acquisition, use or disposition of corporate assets that could have a material effect on the financial statements. Because of its inherent limitations, ICFR may not prevent or detect misstatements. The *Internal Control - Integrated Framework (2013)* was used to design Tenaz's ICFR. The Company's certifying officers evaluated, or caused to be evaluated under their supervision, the effectiveness of Tenaz's ICFR at December 31, 2023 and concluded that Tenaz's ICFR was effective as of December 31, 2023. During the period from October 1, 2023 to December 31, 2023 Tenaz's ICFR included policies and procedures reflecting acquired assets which included specific matters related to the consolidation and reporting of assets outside of Canada. Other than in respect of policies and procedures reflecting acquired assets, no changes were made to Tenaz's ICFR during the period beginning on October 1, 2023 and ending December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

ADVISORIES

Non-GAAP and Other Financial Measures

This MD&A and quarterly report contains the terms funds flow from operations, capital expenditures, free cash flow and midstream income which are considered "non-GAAP financial measures" and operating netback which is considered a "non-GAAP financial ratio". These terms do not have a standardized meaning prescribed by GAAP. In addition, this MD&A contains the measure adjusted working capital (net debt), which is considered a "capital management measure". Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that these measures should not be construed as an alternative to net income (loss) determined in accordance with GAAP and these measures should not be considered to be more meaningful than GAAP measures in evaluating the Company's performance.

Non-GAAP Financial Measures

Funds flow from operations ("FFO")

Tenaz considers funds flow from operations to be a key measure of performance as it demonstrates the Company's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and settling liabilities. Funds flow from operations is calculated as cash flow from operating activities plus midstream income and before changes in non-cash operating working capital and decommissioning liabilities settled. Funds flow from operations is not intended to represent cash flows from operating activities calculated in accordance with IFRS. A summary of the reconciliation of cash flow from operating activities to funds flow from operations, is set forth below:

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Cash flow from operating activities	**8,927**	175	4,809	**15,176**	9,347
Change in non-cash operating working capital	**(3,113)**	1,186	(1,826)	**274**	(991)
Decommissioning liabilities settled	**6,187**	2,319	256	**9,048**	256
Midstream income	**1,400**	1,146	-	**4,364**	-
Funds flow from operations	**13,401**	4,826	3,236	**28,862**	8,612

Capital Expenditures

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

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Exploration and evaluation additions	**357**	246	-	**1,519**	-
Property, plant and equipment additions	**2,610**	14,992	4,988	**23,336**	17,101
Capital expenditures	**2,967**	15,238	4,988	**24,855**	17,101

Free Cash Flow ("FCF")

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

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Funds flow from operations	**13,401**	4,826	3,236	**28,862**	8,612
Less: Capital expenditures	**(2,967)**	(15,238)	(4,988)	**(24,855)**	(17,101)
Free cash flow	**10,454**	(10,412)	(1,752)	**4,007**	(8,489)

Midstream Income

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

($000)	**Q4 2023**	Q3 2023	Q4 2022	**2023**	2022
Income from associate	**543**	1,146	-	**3,507**	-
Plus: Amortization of fair value increment of NGT	**857**	-	-	**857**	-
Midstream income	**1,400**	1,146	-	**4,364**	-

Non-GAAP Financial Ratio

Operating Netback

Tenaz calculates operating netback on a dollar or per boe basis, as petroleum and natural gas sales less royalties, operating costs and transportation costs, plus midstream income (income from associate, as described above). Operating netback is a key industry benchmark and a measure of performance for Tenaz that provides investors with information that is commonly used by other crude oil and natural gas producers. The measurement on a per boe basis assists management and investors with evaluating operating performance on a comparable basis. Tenaz's operating netback is disclosed in the "Operating Netback" section of this MD&A.

Capital Management Measure

Adjusted working capital (net debt)

Management views adjusted working capital (net debt) as a key industry benchmark and measure to assess the Company's financial position and liquidity. Adjusted working capital (net debt) is calculated as current assets less current liabilities, excluding the fair value of derivative instruments. Tenaz's adjusted working capital (net debt) is disclosed in the "Capital Resources and Liquidity" section of this MD&A.

Supplementary Financial Measures

"**Funds flow from operations per basic share**" is comprised of funds flow from operations divided by basic weighted average Common Shares.

"**Funds flow from operations per diluted share**" is comprised of funds flow from operations divided by diluted weighted average Common Shares.

"**Operating expense per boe**" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.

"**Realized heavy crude oil price**" is comprised of heavy crude oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's crude oil production.

"**Realized natural gas liquids price**" is comprised of natural gas liquids commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas liquids production.

"**Realized natural gas price**" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.

"**Realized petroleum and natural gas sales price**" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total production.

"**Royalties as a percentage of sales**" is comprised of royalties, as determined in accordance with IFRS, divided by commodity sales from production as determined in accordance with IFRS.

"**Royalties per boe**" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.

"**Transportation expense per boe**" is comprised of transportation expense, as determined in accordance with IFRS, divided by the Company's total production.

Barrels of Oil Equivalent

The term barrels of oil equivalent (“boe”) may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. The boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalent of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Forward-looking Information

This MD&A and quarterly report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "budget", "forecast", “guidance”, "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", “potential”, "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A and quarterly report contains forward-looking information and statements pertaining to: the TIP and Awards thereunder; the NCIB and expected share buybacks thereunder; Tenaz’s capital plans; activities and budget for 2024, and our anticipated operational and financial performance; expected well performance; expected economies of scale; forecasted average production volumes and capital expenditures for 2024; the ability to grow our assets domestically and internationally; statements relating to a potential CCS project; and the Company’s strategy.

The forward-looking information and statements contained in this MD&A and quarterly report reflect several material factors and expectations and assumptions of Tenaz including, without limitation: the continued performance of Tenaz's oil and gas properties in a manner consistent with its past experiences; that Tenaz will continue to conduct its operations in a manner consistent with past operations; expectations regarding future development; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; expectations regarding future acquisition opportunities; the accuracy of the estimates of Tenaz's reserves and resource volumes; certain commodity price and other cost assumptions; the continued availability of oilfield services; and the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures and obligations and commitments.

Tenaz believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations, and assumptions will prove to be correct.

The forward-looking information and statements included in this MD&A and quarterly report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Tenaz's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Tenaz or by third party operators of Tenaz's properties, increased debt levels or debt service requirements; inaccurate estimation of Tenaz's oil and gas reserve or resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; a failure to obtain necessary approvals as proposed or at all and certain other risks detailed from time to time in Tenaz's public documents.

The forward-looking information and statements contained in this MD&A and quarterly report speak only as of the date of this MD&A and quarterly report, and Tenaz does not assume any obligation to publicly update or revise them to reflect new events or circumstances or otherwise, except as may be required pursuant to applicable laws.

MANAGEMENT'S REPORT

Management's Responsibility for the Financial Statements

The annual consolidated financial statements of Tenaz Energy Corp. as at and for the years ended December 31, 2023 and 2022 were prepared by management within acceptable limits of materiality and are in accordance with IFRS Accounting Standards as issued by the IASB. Management is responsible for the integrity, consistency, objectivity and reliability of the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies as described in the notes to the consolidated financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgments made by management. Management has designed and maintains an appropriate system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records are properly maintained to facilitate the preparation of consolidated financial statements for reporting purposes.

KPMG LLP, an independent firm of Chartered Professional Accountants appointed by the shareholders, have conducted an examination of the corporate and accounting records to express their audit opinion on the consolidated financial statements. The Audit Committee, consisting of non-management directors, has met with representatives of KPMG LLP and management to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable, and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the internal control over financial reporting for Tenaz Energy Corp. The assessment was based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2023.

/s/ Anthony Marino
President and Chief Executive Officer

/s/ Bradley Bennett
Chief Financial Officer

March 28, 2024
Calgary, Alberta

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tenaz Energy Corp.

Opinion

We have audited the consolidated financial statements of Tenaz Energy Corp. (the "Entity"), which comprise:

- the consolidated balance sheets as at December 31, 2023 and December 31, 2022
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years ended then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Comparative Information

We draw attention to note 8 to the financial statements, which explains that certain comparative information presented for the year ended December 31, 2022 has been restated. Note 8 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the impact of estimated proved and probable oil and gas reserves on property, plant and equipment ("PP&E")

Description of the matter

We draw attention to note 3, note 5 and note 10 to the financial statements. The Entity uses estimated proved and probable oil and gas reserves to deplete its developed and producing assets included in PP&E, to assess for indicators of impairment on each of the Entity's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU. The Entity has $115.8 million of PP&E as at December 31, 2023. The Entity depletes its net carrying value of developed and producing assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. Depletion and depreciation expense was $20.0 million for the year ended December 31, 2023. The Entity identified an indicator of impairment at December 31, 2023 in the Netherlands CGU and performed an impairment test to estimate the recoverable amount of the CGU. The impairment test concluded that the recoverable amount of the Netherlands CGU exceeds its carrying value and accordingly there is no impairment.

The estimated recoverable amount of the Netherlands CGU involved significant estimates, including:

- The estimate of proved and probable oil and gas reserves
- The discount rates.

The estimate of proved and probable oil and gas reserves requires the expertise of an independent third-party reserve evaluator and includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production

- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engaged an independent third-party reserve evaluator to estimate proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on PP&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the discount rates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the depletion expense calculation for compliance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

With respect to the estimate of proved and probable oil and gas reserves:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluator
- We compared the 2023 actual production, operating costs, royalty costs and future development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2023 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Entity's discount rates by comparing the discount rates to market and other external data
- Assessing the reasonableness of the Entity's estimate of the recoverable amount of Netherlands CGU by comparing the Entity's estimate to market metrics and other external data.

Assessment of the impact of estimated contingent oil and gas resources on the final estimated acquisition date fair value of exploration and evaluation assets acquired (the "Acquired E&E") in the 2022 private United States (U.S.) company acquisition

Description of the matter

We draw attention to note 3, note 5 and note 8 to the financial statements. On December 20, 2022 ("the acquisition date"), the Entity acquired 100% of the issued and outstanding shares of a private U.S. company with upstream and midstream assets located in the Netherlands (the "2022 Acquisition"). In connection with the 2022 Acquisition, the Entity recorded exploration and evaluation assets with a final estimated acquisition date fair value of $5.5 million. The estimated acquisition date fair value of the Acquired E&E involves significant estimates, including the quantity of contingent oil and gas resources and fair value metrics per barrel of oil equivalent ("boe").

The estimate of the quantity of contingent oil and gas resources requires the expertise of an independent third-party reserve evaluator.

The Entity engaged an independent third-party reserve evaluator to estimate the quantity of contingent oil and gas resources as at July 1, 2023.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated contingent oil and gas resources on the estimated acquisition date fair value of the Acquired E&E as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of the quantity of contingent oil and gas resources and the fair value metrics per boe. Additionally, the evaluation of the final estimated acquisition date fair value of the Acquired E&E requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of contingent oil and gas resources associated with the Acquired E&E prepared at July 1, 2023:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Entity.

With respect to the estimate of contingent oil and gas resources associated with the Acquired E&E prepared at the acquisition date:

- We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments in arriving at the estimate of contingent oil and gas resources.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

Assessing the reasonableness of the Entity's final estimated acquisition date fair value of the Acquired E&E by comparing the Entity's estimate against a fair value range that was independently developed for the final estimated acquisition date fair value of the Acquired E&E using market metrics and other external data.

Assessment of the impact of estimated proved and probable oil and gas reserves on the preliminary estimated acquisition date fair value of developed and producing assets acquired (the "Acquired D&P") in the XTO Netherlands Ltd. company acquisition

Description of the matter

We draw attention to note 3, note 5 and note 8 to the financial statements. On July 3, 2023 ("the acquisition date"), the Entity acquired 100% of the issued and outstanding shares of XTO Netherlands Ltd., a private U.S. company with upstream and midstream assets located in the Netherlands. In connection with the acquisition, the Entity recorded developed and producing assets with a preliminary estimated acquisition date fair value of $11.3 million. The preliminary estimated acquisition date fair value of the Acquired D&P involves significant estimates, including proved and probable oil and gas reserves and the discount rates.

The estimate of proved and probable oil and gas reserves requires the expertise of an independent third-party reserve evaluator and includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs.

The Entity engaged an independent third-party reserve evaluator to estimate proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on the preliminary estimated acquisition date fair value of the Acquired D&P as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the discount rates. Additionally, the evaluation of the preliminary estimated acquisition date fair value of the Acquired D&P requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

With respect to the estimate of proved and probable oil and gas reserves associated with the Acquired D&P as at December 31, 2023:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Entity
- We compared the forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We evaluated the appropriateness of forecasted production and forecasted operating costs by comparing to 2023 actual results. We took into account changes in conditions and events affecting the Acquired PP&E to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

With respect to the estimate of proved and probable oil and gas reserves associated with the Acquired D&P as at the acquisition date:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Entity
- We compared the forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We evaluated the appropriateness of forecasted production and forecasted operating costs by comparing to 2023 actual results. We took into account changes in conditions and events affecting the Acquired PP&E to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Entity's discount rates used in the determination of the preliminary estimated acquisition date fair value of the Acquired D&P by comparing the discount rates to market and other external data.
- Assessing the reasonableness of the Entity's preliminary acquisition date fair value of the Acquired D&P, by comparing it against a fair value range that was independently developed for the Acquired D&P using market metrics and other external data.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Stephanie Regier Pankratz.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 28, 2024

CONSOLIDATED BALANCE SHEETS

As at

($000)	Note	**December 31 2023**	December 31(1) 2022
ASSETS			
Current assets			
Cash and cash equivalents		**50,300**	1,832
Restricted cash	7	**32,944**	59,091
Accounts receivable	17	**8,002**	10,251
Prepaid expenses and deposits		**1,004**	1,099
Derivative instruments	17	**238**	44
		92,488	72,317
Exploration and evaluation assets	9	**8,870**	5,545
Property, plant and equipment	10	**115,793**	104,275
Right-of-use assets		**198**	12
Investment in associate	11	**21,366**	12,591
Total assets		**238,715**	194,740
LIABILITIES			
Current liabilities			
Bank debt	12	**-**	21,483
Accounts payable and accrued liabilities		**15,671**	14,291
Current portion of lease liabilities		**-**	66
Current portion of decommissioning liability	13	**2,310**	**-**
Taxes payable	16	**24,931**	22,284
Derivative instruments	17	**1,076**	520
		43,988	58,644
Lease liabilities		**244**	59
Decommissioning liability	13	**42,979**	30,435
Deferred taxes	16	**55,151**	34,231
Total liabilities		**142,362**	123,369
SHAREHOLDERS' EQUITY			
Share capital	14	**60,875**	63,831
Warrants	14	**3,203**	3,203
Contributed surplus		**10,918**	8,871
Retained earnings (deficit)		**21,103**	(4,534)
Accumulated other comprehensive income		**254**	-
Total shareholders' equity		**96,353**	71,371
Total liabilities and shareholders' equity		**238,715**	194,740

(1) Restated for impact of adjustment of prior year PPA adjustment- refer to note 8.

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

/s/ Anna Alderson
Director

/s/ Anthony Marino
Director

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

($000, except per share amounts)	Note	2023	2022
REVENUE			
Petroleum and natural gas sales	15	**64,852**	34,087
Royalties		**(4,856)**	(5,947)
Petroleum and natural gas revenue		**59,996**	28,140
EXPENSES (OTHER INCOME)			
Transportation		**3,165**	1,020
Operating		**22,459**	8,308
Income from associate	11	**(3,507)**	-
General and administrative		**7,384**	5,056
Transaction costs		**3,759**	2,684
Interest and financing, net of income		**(1,002)**	99
Foreign exchange loss (gain)		**308**	(324)
Loss (gain) on derivative instruments	17	**(241)**	1,700
Share-based compensation	14	**1,858**	1,268
Depletion, depreciation and amortization	10	**19,962**	6,433
Impairment (reversal)	10	**-**	(4,240)
Accretion of decommissioning liability	13	**5,505**	241
Gain on acquisition	8	**(20,652)**	-
Total expenses (other income)		**38,998**	22,245
Net income before income taxes		**20,998**	5,895
Provision for income taxes			
Current	16	**338**	527
Deferred	16	**(5,887)**	131
Total income taxes		**(5,549)**	658
Net income		**26,547**	5,237
Other comprehensive income			
Currency translation adjustments		**254**	-
Comprehensive income		**26,801**	5,237
Net income per share			
Basic	14	**0.97**	0.18
Diluted	14	**0.91**	0.18

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

($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	14	(1,035)			281		(754)
Share-based compensation							
- Expensed	14	-	-	1,268	-	-	1,268
- Capitalized	14	-	-	74	-	-	74
Net income for the period		-	-	-	5,237	-	5,237
Balance, December 31, 2022		63,831	3,203	8,871	(4,534)	-	71,371
Normal course issuer bid	14	(2,956)	-	-	(910)	-	(3,866)
Share-based compensation							
- Expensed	14	-	-	1,858	-	-	1,858
- Capitalized	14	-	-	189	-	-	189
Net income for the year		-	-	-	26,547	-	26,547
Currency translation adjustments		-	-	-	-	254	254
Balance, December 31, 2023		**60,875**	**3,203**	**10,918**	**21,103**	**254**	**96,353**

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

($000)	Note	2023	2022
OPERATING ACTIVITIES			
Net income		**26,547**	5,237
Items not involving cash:			
Share-based compensation	14	**1,858**	1,268
Depletion, depreciation and amortization		**19,962**	6,433
Impairment reversal		**-**	(4,240)
Income from associate	11	**(3,507)**	-
Accretion of decommissioning liability	13	**5,505**	241
Unrealized foreign exchange gain		**311**	(334)
Unrealized (gain) loss on derivative instruments	17	**361**	(124)
Gain on acquisition	8	**(20,652)**	-
Deferred taxes		**(5,887)**	131
Decommissioning liabilities settled	13	**(9,048)**	(256)
Change in non-cash working capital	19	**(274)**	991
Cash flow from operating activities		**15,176**	9,347
INVESTING ACTIVITIES			
Exploration and evaluation	9	**(1,519)**	-
Property, plant and equipment	10	**(23,336)**	(17,101)
Cash acquired in acquisitions	8	**36,807**	1,812
Restricted cash for security arrangements	7	**42,187**	(36,506)
Dividend from associate	11	**6,140**	-
Change in non-cash working capital	19	**(2,083)**	(2,096)
Cash flow from (used) in investing activities		**58,196**	(53,891)
FINANCING ACTIVITIES			
Advance (repayment) of bank debt	12	**(21,483)**	21,483
Normal course issuer bid	14	**(3,866)**	(754)
Proceeds from the exercise of stock options		**-**	231
Principal payments on lease liabilities		**(9)**	(54)
Cash flow from (used in) financing activities		**(25,358)**	**20,906**
Foreign exchange gain on cash held in foreign currencies		**454**	-
CHANGE IN CASH AND CASH EQUIVALENTS		**48,468**	(23,638)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**1,832**	25,470
CASH AND CASH EQUIVALENTS, END OF YEAR		**50,300**	1,832
Cash interest paid		**692**	359
Cash taxes paid		**7,441**	-

See accompanying notes to the consolidated financial statements.

1. REPORTING ENTITY

Tenaz Energy Corp. ("Tenaz" or the "Company") is an energy company focused on the acquisition and sustainable development of international oil and gas assets capable of returning free cash flow to shareholders. Tenaz has domestic operations in Canada along with offshore natural gas and midstream 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 consolidated financial statements (the "Financial Statements") have been prepared in accordance with IFRS Accounting Standards as issued by the Internal Accounting Standards Board. All financial information is reported in Canadian dollars, unless otherwise noted. References to "EUR" or "€" are to Euros.

The Financial Statements have been prepared on a historical cost basis, except those items that are presented at fair value as detailed in the accounting policies disclosed in Note 3.

The Financial Statements include the accounts of Tenaz Energy Corp. and its subsidiaries. Subsidiaries are entities over which Tenaz has control. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date that there is a loss of control. All intercompany transactions, balances, and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Beginning December 20, 2022, Tenaz commenced business in the Netherlands through a wholly-owned subsidiary acquired (Note 8) with a Euro functional currency. Tenaz's subsidiaries include entities in each of the jurisdictions that Tenaz operates as described in Note 6 (Segmented information), including Canada and the Netherlands.

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. Significant estimates and judgments used in the preparation of the Financial Statements are detailed in Note 5.

These financial statements were authorized for issue by Tenaz's board of directors (the "Board") on March 28, 2024.

3. MATERIAL ACCOUNTING POLICIES

Financial instruments

Classification and measurement of financial instruments

Tenaz's financial assets and financial liabilities are classified into two categories: Amortized cost and fair value through profit and loss ("FVTPL"). The classification of financial assets is determined by their context in Tenaz's business model and by the characteristics of the financial asset's contractual cash flows. Tenaz does not classify any of its financial instruments as fair value through other comprehensive income.

Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price, unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification.

Amortized Cost

Cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, lease liabilities, and bank debt are subsequently measured at amortized cost using the effective interest rate method. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows.

FVTPL

Derivative instruments are measured initially at FVTPL and are subsequently measured at fair value with changes in fair value immediately charged to net income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, term deposits, and similar-type instruments with an original maturity of three months or less at the time of purchase.

Capitalization of overhead costs

Tenaz capitalizes all costs that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of use in the manner intended by management. These costs include certain overhead charges including cash and share-based compensation paid to Tenaz personnel dedicated to capital projects.

Exploration and Evaluation ("E&E") Assets

E&E costs are capitalized until the technical feasibility and commercial viability, or otherwise, of the relevant projects have been determined. Technical feasibility and commercial viability of E&E assets is dependent upon the assignment of a sufficient amount of economically recoverable crude oil, condensate, natural gas, and natural gas liquids reserves ("reserves"). The expected reserves are weighted against the estimated potential resources to fund the project and available infrastructure and markets to support commercial development. E&E costs may include costs of seismic and land acquisitions, technical services and studies, exploratory drilling and testing, and the estimate of any related decommissioning. Costs incurred prior to obtaining the legal right to explore are expensed in net income as E&E expense. Assets classified as E&E may have sales of crude oil and natural gas products associated with production from test wells. These operating results are recognized in net income. A depletion charge, included in net income, is recognized on these test wells. Non-producing assets classified as E&E are not depleted.

When a project classified as E&E is determined to be technically feasible and commercially viable, the cost is transferred from E&E to developed and producing (“D&P”) assets included in property, plant and equipment ("PP&E") on the balance sheets. The assets are assessed for impairment prior to any such transfer, by comparing the carrying amount to the greater of the assets' fair value less costs of disposal or value in use. If a decision is made by management not to continue an E&E project, the E&E is derecognized and all associated costs are charged to net income at that time.

Property, plant and equipment

Items of PP&E, which include crude oil and natural gas D&P assets and corporate assets, are measured at cost less accumulated depletion, depreciation and amortization ("DD&A") and accumulated impairment charges, if any.

Depletion, depreciation and amortization

PP&E is organized into groups of assets with similar useful lives for the purposes of performing DD&A calculations. Depletion expense is measured using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring these reserves into production. This calculation is based on:

- total estimated proved plus probable reserves calculated in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101");
- total capitalized costs plus estimated future development costs of proved plus probable reserves, including future estimated decommissioning costs; and
- relative volumes of reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

Depreciation of corporate assets is recognized on a straight-line basis over the estimated useful lives of the related assets, which range from three to ten years.

Business combinations

Tenaz accounts for business combinations (or groups of assets) using the acquisition method. The cost of an acquisition is measured as the fair value of the assets received/transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. Identifiable assets and liabilities assumed are measured and recognized at their fair value at the date of the acquisition, with the exception of income taxes, right-of-use ("ROU") assets, and lease liabilities. Any deferred tax asset or liability arising from a business combination is recognized at the acquisition date. Transaction costs associated with a business combination are expensed as incurred. Results of acquisitions are included in the financial statements from the closing date of the acquisition. Any excess of purchase price over the fair value of net assets acquired is recognized as goodwill and any excess of the fair value of net assets acquired compared to consideration paid is recognized as a gain on business combination.

Investments in associates

Associates are entities for which Tenaz has significant influence, but not control or joint control over the financial and operational decisions. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost and adjusted thereafter for the change in the Company's share of the investee's net income and other comprehensive income less distributions received until the date that significant influence ceases.

Impairment of Non-Financial Assets

PP&E

Tenaz's PP&E is grouped into cash-generating units ("CGUs") for the purpose of assessing impairment. A CGU is a grouping of assets that generate cash inflows independently of other assets held by the Company.

Tenaz assesses at each reporting date whether there is an indication that PP&E within the CGUs may be impaired or that historical impairment may be reversed. When such indicators exist, an impairment test is performed by comparing the CGU's carrying value to its estimated recoverable amount, defined as the greater of a CGU's fair value less costs of disposal and its value in use. Any excess of carrying value over the recoverable amount is recognized in net income as impairment of property, plant and equipment.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant CGU is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount that would have been determined, net of accumulated DD&A, if no impairment charge had been recognized. A reversal of impairment of PP&E is recognized in net income as reversal of impairment of property, plant and equipment.

E&E

E&E assets are assessed for impairment at the CGU level and are reviewed at each reporting date for indicators of potential impairment, or in the case of previously impaired E&E assets, reversal of impairment. An impairment charge on E&E assets is recognized if the carrying value of the E&E assets exceeds the recoverable amount defined as the greater of a CGU's fair value less costs of disposal and its value in use. Impairment of E&E assets is recognized in net income as impairment of E&E.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant E&E asset is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount that would have been determined, net of accumulated DD&A if applicable, if no impairment charge had been recognized. A reversal of impairment of E&E assets is recognized in net income as reversal of impairment.

Investment in associates

The investment in associates are assessed for indicators of impairment at each reporting date. If such indicators exist, an impairment test is conducted by comparing the carrying value of the investment to its estimated recoverable amount. The recoverable amount is determined as the higher of the associate's fair value less costs of disposal and its value in use. Any excess of the carrying value over the recoverable amount is recognized in net income as impairment of the investment in associates. Similarly, if there are indications that a previously recognized impairment loss may no longer exist or has decreased, the recoverable amount of the associate is reassessed and compared against its carrying amount. An impairment loss is reversed to the extent that the recoverable amount exceeds the carrying amount, net of any accumulated impairment losses. This reversal of impairment of associates is recognized in net income as a reversal of impairment of investments in associates.

Decommissioning liabilities

Provisions for decommissioning and restoration obligations associated with Tenaz's E&E and PP&E assets are recognized as decommissioning liabilities. Decommissioning liabilities are measured at present value at the balance sheet date, based on management's best estimate of expenditures required to settle the liability, at the end of the asset's useful life discounted at the liability-specific credit-adjusted risk-free discount rate. On a periodic basis, management reviews these estimates and changes, if any, are applied prospectively. These changes are recognized as an increase or decrease to the liability, with a corresponding increase or decrease to the carrying amount of the related asset. The capitalized amount in PP&E is depreciated on a unit-of-production basis over the life of the associated proved plus probable reserves. The long-term liability is increased each reporting period with the passage of time and the associated accretion charge is recognized in net income. Periodic revisions to the liability-specific credit-adjusted risk-free discount rate, estimated timing of cash flows, or to the estimated undiscounted cost can also result in an increase or decrease to the decommissioning liabilities and the related asset. Actual costs incurred upon settlement of the liability are recorded against the decommissioning liability to the extent of the liability recognized.

Provisions and Contingent Liabilities

Provisions are recognized when Tenaz has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be determined for the obligation.

Share capital

Common Shares are classified as equity. Costs directly attributable to the issuance of Common Shares are recognized as a deduction from equity, net of tax. When Tenaz repurchases its own Common Shares, share capital is reduced by the average carrying value of the shares repurchased. If the average carrying value of the shares exceeds the purchase price, the difference is recognized as contributed surplus. If the purchase price exceeds the average carrying value of the shares, any previous contributed surplus related to such transactions is reversed. To the extent there is none, the difference is recognized as a reduction to retained earnings. Shares are cancelled upon repurchase.

Revenue recognition

Tenaz principally generates revenue from the sale of petroleum and natural gas commodities, which include crude oil, natural gas, condensate, and natural gas liquids ("NGLs"). Revenue associated with the sale of commodities is recognized when control is transferred from Tenaz to its customers. Tenaz's commodity sales contracts represent a series of distinct transactions. Tenaz considers its performance obligations to be satisfied and control to be transferred when all of the following conditions are satisfied:

- Tenaz has transferred title and physical possession of the commodity to the buyer;
- Tenaz has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- Tenaz has the present right to payment.

Revenue represents Tenaz's share of commodity sales. Tenaz sells its production pursuant to fixed and variable-priced 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. Under these contracts, the Company is required to deliver a fixed volume of crude oil, natural gas, condensate, or NGLs to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of Tenaz's variable revenue is considered to be constrained.

Share-based compensation

Share-based compensation expense results from equity-settled awards issued under Tenaz's long-term incentive plans.

Compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date and is recognized over the period that the awards vest, with a corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus is recognized in shareholders' capital.

Income taxes

Provision for, or recovery of, income tax comprises current and deferred income taxes and are recognized in the statements of net income, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income ("OCI").

Current tax is the expected tax payable on taxable income for the year, using enacted or substantively enacted tax rates at the reporting date, and any adjustment to tax payable in respect of previous years. Tenaz recognizes the financial statement impact of a tax filing position when it is probable that the position will be sustained upon audit. The liability is measured based on an assessment of possible outcomes and their associated probabilities.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign currency translation

Tenaz Energy Corp.'s functional and presentation currency is the Canadian dollar. Tenaz has subsidiaries that transact and operate in countries other than Canada and have functional currencies other than the Canadian dollar.

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the period average rates of exchange. Translation gains and losses are recognized in net income in the period in which they arise.

The financial statements of subsidiaries with a functional currency other than the Canadian dollar are translated into Canadian dollars. The assets and liabilities are translated at the exchange rates at the reporting date. The revenue and expenses are translated at the exchange rates that approximate the dates of those transactions. Foreign currency differences are recognized in OCI and accumulated in the translation reserve, unless or until such time as the subsidiary is disposed or liquidated, upon which the cumulative translation adjustment is recognized in net income.

Segmented information

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.

4. CHANGES IN ACCOUNTING POLICIES

Future Accounting Pronouncements

The Company monitors for new accounting standards and amendments to existing accounting standards issued by the IASB. To date, such developments are concluded to either not be applicable or concluded to not have a future material impact on the Company's financial reporting.

5. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

The timely preparation of financial statements in accordance with IFRS Accounting Standards requires management to use judgments, estimates, and assumptions. These estimates and judgments are subject to change and actual results could differ from those estimated. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingencies are discussed below.

Crude oil, condensate, natural gas, and natural gas liquids reserves and contingent resources

There are a number of inherent uncertainties associated with estimating reserves. Reserve estimates are based on engineering data, forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs and future development costs, all of which are subject to many uncertainties, interpretations, and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2023 and 2022, which could differ significantly from other points in time throughout the year, or future periods. Tenaz's reserves have been evaluated by an independent, third-party reserve evaluator. The key assumptions include forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs, and future development costs.

The quantity of contingent resources are estimated based on engineering data, which are subject to many uncertainties, interpretations and judgments. Estimates reflect market and regulatory conditions existing at acquisition date, which could differ significantly from other points in time throughout the year, or future periods.

Recoverability of asset carrying amounts

Management applies judgment in assessing the existence of indicators of impairment and reversal of impairment based on various internal and external factors. The assessment of these factors considers estimated proved and probable oil and gas reserves. The recoverable amount of a CGU or of an individual asset is determined as the greater of fair value less costs of disposal and value in use. The significant estimates involved in determining an acceptable range of recoverable amounts include the estimate of cash flows associated with proved and probable oil and gas reserves as determined annually by the Company's independent third-party reserve evaluators and discount rate.

In estimating the recoverable amount of a CGU, the following information is incorporated:

- The net present value of the after-tax cash flows from proved plus probable reserves of each CGU based on reserves estimated by an independent third-party reserve evaluator based on estimated remaining reserve life.
- The fair value of undeveloped land based on estimates including recent sales of similar properties in the same general area, recent exploration and discovery activity in the general area and the remaining term of undeveloped land.
- Data pertaining to ongoing and completed transactions within the industry on assets with similar geological and geographic characteristics within the relevant CGU.

Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, future production costs, future development expenditures, or recovery rates may change the economic status of reserves and may ultimately result in reserves being revised.

Nature of crude oil and natural gas investments

Management applies judgment when classifying the nature of crude oil and natural gas investments as E&E or PP&E, and when determining whether capitalization of the initial costs of these investments is appropriate. The Company uses historical drilling results, project economics, resource quantities, production technology expectations, production costs, and future development costs to make judgments about future events and circumstances.

E&E assets

The accounting for E&E assets requires management to make judgments as to whether E&E investments have discovered a sufficient amount of economically recoverable reserves, which requires the quantity and realizable value of such reserves to be estimated and could be impacted by a shift in demand as global energy markets transition to a lower carbon-based economy. Previous estimates are sometimes revised as new information becomes available.

E&E assets remain capitalized as long as ongoing activities are being conducted to assess the technical feasibility and commercial viability of reserves. The determination of whether these activities demonstrate progress towards establishing technical feasibility and commercial viability is a judgmental area. It is common for E&E assets to remain classified as such for extended periods while additional exploration and evaluation activities are undertaken, or while the Company awaits government, regulatory, or internal approvals for development plans. These assets undergo continuous management review to confirm the ongoing intent to establish technical feasibility and commercial viability. When making this assessment, management considers factors such as changes to project economics, expected capital investments, production costs, results of other operators in the region, and access to infrastructure.

Provisions and contingent liabilities

The determination of provisions and disclosure of contingent liabilities involves management judgments about the probability of outcomes of future events and estimates on timing and amount of expected future outflows. Such disclosure could relate to predicted outcomes of ongoing legal matters, ongoing or completed asset dispositions, and current regulatory processes.

Decommissioning liabilities

The provision for site restoration and abandonment for Tenaz's PP&E and E&E assets is based on estimated inflation and discount rates, current legal and regulatory requirements, technology, cost of services, and expected plans for remediation expenditures. Actual costs and timing of cash outflows can differ from estimates because of changes in laws and regulations, public expectations, and market conditions, all of which could be influenced by the rate at which global energy markets transition to a lower carbon-based economy. Additionally, further discovery, analysis of site conditions, and changes in technology could also cause estimates to differ from actual costs.

Share-based compensation

Compensation expense accrued for Performance Share Units ("PSUs") awarded pursuant to the Tenaz Incentive Plan (“TIP”) is dependent on an adjustment to the final number of PSU awards that eventually vest based on a performance multiplier that is estimated by management. Large fluctuations in compensation expense may occur due to changes in the underlying share price or revised management estimates of relevant performance factors.

Compensation expense recognized for stock option awards under the Stock Option Plan is based on a Black-Scholes option pricing model. The inputs to this model, including dividend yield, expected volatility, forfeitures, and discount rates, rely on management judgment. Forfeitures are estimated through the vesting period based on past experience and future expectations and adjusted upon actual forfeitures.

Income taxes

Tax regulations and legislation are subject to change and there are interpretations requiring management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires management judgment. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods, which requires management judgment. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances, and interpretations of the standards may result in a material increase or decrease in the Company's provision for income taxes.

Business combinations

Management judgment may be required to determine the fair value of the acquired assets and liabilities. The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of PP&E using a value in use model generally require significant judgment and estimation including cash flows associated with the proved and probable oil and gas reserves and discount rate. The assumptions and estimates with respect to determining the fair value of E&E using a value in use model generally require significant judgment and estimation including the quantity of contingent resources and the fair value metrics per barrel of oil equivalent (“boe”). Management judgment is also required in determining the fair value of investments in associated entities and decommissioning liabilities associated with the properties.

Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, and goodwill (or net assets acquired in excess of purchase consideration). Future net income could also be affected as the fair value on initial recognition impacts carrying amounts for assets and liabilities.

6. SEGMENTED INFORMATION

Following the 2022 Acquisition and the XTO Acquisition (Note 8), 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.

			Year ended December 31 2023
($000)	**Netherlands**	**Canada/ Corporate**	**Total**
Total assets	158,239	80,476	**238,715**
Exploration and evaluation asset additions	1,519	-	**1,519**
Property, plant and equipment additions	4,286	19,050	**23,336**
Heavy crude oil	-	27,380	**27,380**
Natural gas liquids	380	1,074	**1,454**
Natural gas	32,131	3,887	**36,018**
Petroleum and natural gas sales	32,511	32,341	**64,852**
Royalties	-	(4,856)	**(4,856)**
Revenue	32,511	27,485	**59,996**
Transportation expenses	(1,612)	(1,553)	**(3,165)**
Operating expenses	(13,113)	(9,346)	**(22,459)**
Midstream Income(1)	4,364	-	**4,364**
General and administrative expenses	(893)	(6,491)	**(7,384)**
Current income taxes	(338)	-	**(338)**
Transaction costs	-	(3,759)	**(3,759)**
Interest and financing, net of income	-	1,002	**1,002**
Realized foreign exchange gain	-	3	**3**
Realized loss on derivative instruments	-	602	**602**
Funds flow from operations	20,919	7,943	**28,862**

(1) Represents income from associate of $3.5 million prior to amortization of fair value increment on acquisition of $0.9 million. Midstream income is a non-GAAP measure that more closely approximates the cash distribution to be received from NGT (note 11).

($000)	Netherlands	Canada/ Corporate	Year ended December 31 2022 Total
Total assets	91,156	103,584	**194,740**
Property, plant and equipment additions	-	17,101	**17,101**
Heavy crude oil	-	24,789	**24,789**
Natural gas liquids	9	1,470	**1,479**
Natural gas	2,043	5,776	**7,819**
Petroleum and natural gas sales	2,052	32,035	**34,087**
Royalties	-	(5,947)	**(5,947)**
Revenue	2,052	26,088	**28,140**
Transportation expenses	(48)	(972)	**(1,020)**
Operating expenses	(642)	(7,666)	**(8,308)**
General and administrative expenses	-	(5,056)	**(5,056)**
Current income taxes	-	(527)	**(527)**
Transaction costs	-	(2,684)	**(2,684)**
Interest and financing, net of income	-	(99)	**(99)**
Realized foreign exchange gain	-	(10)	**(10)**
Realized gain (loss) on derivative instruments	-	(1,824)	**(1,824)**
Funds flow from operations	1,362	7,250	**8,612**

Reconciliation of funds flow from operations to net income

($000)	2023	Year ended December 31 2022 (1)
Funds flow from operations	**28,862**	8,612
Unrealized foreign exchange gain (loss)	**(311)**	334
Unrealized gain (loss) on derivative instruments	**(361)**	124
Share-based compensation	**(1,858)**	(1,268)
Depletion, depreciation and amortization	**(19,962)**	(6,433)
Amortization of fair value increment of NGT (Note 11)	**(857)**	-
Impairment reversal	-	4,240
Accretion of decommissioning liability	**(5,505)**	(241)
Gain on acquisition	**20,652**	-
Deferred tax expense	**5,887**	(131)
Net income	**26,547**	5,237

(1) Restated for impact of adjustment of prior year PPA adjustment - refer to note 8.

7. RESTRICTED CASH

At December 31, 2023, Tenaz held restricted cash of $32.9 million (€22.5 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, in February, and is posted by parties to licenses where the future costs of decommissioning are higher than the estimated future cash flows from producing assets. Subsequent to year end, as at March 28, 2024 the Company holds restricted cash of $38.5 million (€26.2 million).

The decommissioning security, currently held in restricted cash, can be provided in various acceptable forms, such as letters of credit and decommissioning surety bonds. The calculation of required security is determined through agreed-upon calculations within the DSAs. As decommissioning activities progress, the necessary security amounts required by license holders are reduced.

8. BUSINESS COMBINATIONS

Acquisition of XTO Netherlands Ltd.

On July 3, 2023, the Company completed the acquisition of 100% of the issued and outstanding shares of XTO Netherlands Ltd., a private U.S. Delaware corporation ("XTO"), holding Netherlands upstream and midstream assets in the Dutch North Sea ("DNS") from XH, LLC (the "Vendor"), a wholly owned subsidiary of ExxonMobil Corporation (the " XTO Acquisition"). The XTO Acquisition had an effective date of January 1, 2023 (the "Effective Date").

Pursuant to the XTO Acquisition , the Company acquired:

(i) additional non-operated working interest in certain offshore natural gas licenses in the DNS (the "Upstream Assets"); 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, bringing Tenaz's total interest to 21.4% (Note 11).

Consideration for the XTO Acquisition was $1 cash plus the net settlement of working capital of $0.2 million (€1 and €0.1 million, respectively).

As part of the XTO Acquisition, Tenaz acquired a further restricted cash position of $15.1 million (€10.4 million) on July 3, 2023. The restricted cash is decommissioning security required pursuant to the decommissioning security agreements ("DSAs") for the Upstream Assets (Note 7).

The XTO Acquisition resulted in a $20.7 million gain on acquisition being recognized in the statements of net income and comprehensive income as the consideration was less than the fair value of the identifiable net assets acquired. The gain is primarily due to the fair value of the decommissioning liabilities assumed by Tenaz as compared to the consideration paid.

Preliminary purchase price allocation

The preliminary purchase price allocation recorded on July 3, 2023 is set out below, along with adjustments recorded to date in the fourth quarter:

($000)	Preliminary	Adjustments	Total
Identifiable net assets			
Cash acquired	36,807	-	36,807
Restricted cash	15,083	-	15,083
Accounts receivable	1,928	-	1,928
Exploration and evaluation assets (Note 9)	5,200	(3,655)	1,545
Property, plant and equipment – Developed and producing assets (Note 10)	11,554	(211)	11,343
Investment in NGT (Note 11)	11,182	-	11,182
Accounts payable and accrued liabilities	(1,418)	(152)	(1,570)
Income taxes payable	(9,051)	1,364	(7,687)
Decommissioning liabilities (Note 13)	(25,284)	3,530	(21,754)
Deferred tax liability	(23,027)	(3,005)	(26,032)
Total identifiable net assets	**22,974**	**(2,129)**	**20,845**
Consideration			
Payable to vendor for surplus working capital	193	-	193
Total consideration	**193**	**-**	**193**
Gain on acquisition	22,781	(2,129)	20,652

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 XTO 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 XTO 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. Transaction costs related to the XTO acquisition were $0.5 million for 2023.

If the business combination had occurred on January 1, 2023, pro forma revenue and net income were estimated to be approximately $70 million and $30.6 million, respectively, for the year ended December 31, 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 year ended December 31, 2023 is $7.1 million of revenue and $21.4 million of net income, relating to the XTO Acquisition.

2022 Acquisition

On December 20, 2022, pursuant to a Share Purchase Agreement ("SPA"), 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"). The Netherlands natural gas assets are located in the Dutch sector of the North Sea. The acquired company also has an ownership interest in Noordgastransport B.V. ("NGT") which holds one of the largest gas gathering and processing networks in the Dutch North Sea. The 2022 Acquisition had an effective date of November 1, 2022.

Pursuant to the SPA, Tenaz acquired all of the private company's issued and outstanding shares in exchange for $3 million of consideration payable to the vendor in early 2023, and based on the private company's surplus working capital as at November 1, 2022. The payable to the vendor was settled in February 2023.

Final purchase price allocation

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

($000)	Preliminary	Adjustments	Final
Identifiable net assets			
Cash acquired	1,812	-	1,812
Restricted cash	22,585	-	22,585
Accounts receivable	4,956	-	4,956
Exploration and evaluation assets	14,706	(9,161)	5,545
Property, plant and equipment – Developed and producing assets	42,522	-	42,522
Investment in NGT (Note 11)	12,591	-	12,591
Accounts payable and accrued liabilities	(1,993)	(152)	(2,145)
Income taxes payable	(21,757)	-	(21,757)
Decommissioning liabilities	(29,012)	-	(29,012)
Deferred tax liability	(43,156)	9,056	(34,100)
Total identifiable net assets	**3,254**	**(257)**	**2,997**
Consideration			
Payable to vendor for surplus working capital	3,254	(257)	2,997
Total consideration	**3,254**	**(257)**	**2,997**

As a result of completing the Acquisition, the private company became a wholly-owned subsidiary of Tenaz, and is subsequently consolidated with Tenaz as of December 20, 2022, the acquisition date.

During the current period, the Company finalized the estimates of fair value of the net assets acquired, resulting in a decrease of $9.1 million to deferred tax liability, an increase in accounts payable of $0.2 million and a decrease in Exploration and evaluation assets of $9.2 million. The prior year comparable financial statements have been restated to reflect these adjustments. The adjustments arose primarily from the finalization of applicable income tax pool balances and finalization of the exploration and evaluation resource valuation.

Included in Tenaz’s consolidated results for the year ended December 31, 2022 is $2.1 million of revenue and $0.5 million of net income.

The above business combinations were recognized in accordance with IFRS 3 *Business Combinations* using the acquisition method. The estimated acquisition date fair value attributed to the PP&E was derived from the estimate of proved and probable oil and gas reserves and the related cash flows by independent third-party reserve evaluators. The estimated proved and probable oil and gas reserves and the related cash flows were discounted at a rate based on what a market participant would have paid, as well as market metrics in the prevailing area at that time. The estimated acquisition date fair value attributed to the E&E was derived from the estimated quantity of contingent oil and gas resources and estimated fair value metric per boe. The estimated quantity of contingent oil and gas resources was evaluated by an independent, third-party reserve evaluator at July 1, 2023.

9. EXPLORATION AND EVALUATION

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

($000)	**Total**
Balance, December 31, 2021	-
Acquisition (Note 8)	5,545
Balance, December 31, 2022	5,545
Additions	1,519
Acquisition (Note 8)	1,545
Foreign exchange	261
Balance, December 31, 2023	**8,870**
Canada	**-**
Netherlands	**8,870**

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

Impairment

At December 31, 2023 and December 31, 2022, the Company had not identified any indicators of impairment of E&E assets.

10. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Tenaz's PP&E:

($000)	Developed and Producing Assets	Corporate Assets	Total
Cost			
Balance, December 31, 2021	73,966	241	74,207
Additions	17,065	36	17,101
Acquisition (Note 8)	42,522	-	42,522
Share-based compensation (Note 14)	74	-	74
Decommissioning cost additions and change in estimates (Note 13)	(1,131)	-	(1,131)
Balance, December 31, 2022	132,496	277	132,773
Additions	23,272	64	23,336
Acquisition (Note 8)	11,343	-	11,343
Share-based compensation (Note 14)	189	-	189
Decommissioning cost additions and change in estimates (Note 13)	(3,988)	-	(3,988)
Foreign exchange	617	-	617
Balance, December 31, 2023	**163,929**	**341**	**164,270**
Depletion, depreciation, amortization and impairment			
Balance, December 31, 2021	(26,168)	(137)	(26,305)
Depletion and depreciation	(6,404)	(29)	(6,433)
Impairment reversal	4,240	-	4,240
Balance, December 31, 2022	(28,332)	**(166)**	(28,498)
Depletion and depreciation	(19,887)	**(39)**	(19,926)
Foreign exchange	(53)	**-**	(53)
Balance, December 31, 2023	**(48,272)**	**(205)**	**(48,477)**
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 December 31, 2023	**115,657**	**136**	**115,793**
Canada	**73,503**	**136**	**73,639**
Netherlands	**42,154**	**-**	**42,154**

Estimated future development costs of $96.9 million (December 31, 2022 – $111.7 million) associated with the development of the Company’s proved plus probable crude oil and natural gas reserves were added to the Company’s net book value in the depletion and depreciation calculations.

Impairment

At December 31, 2023, the Company determined there to be indicators of impairment in its Netherlands CGU due to a sustained decline in the forward gas benchmark prices (TTF) during the current reporting period. As a result of this indicator of impairment, management has performed an assessment of the carrying amounts of its oil and gas assets to determine whether any impairment exists.

The estimated Netherlands recoverable amount for the Netherlands CGU was based on the proved and probable reserve values from Tenaz's December 31, 2023 reserve report prepared by its independent third-party reserve evaluator, using forecast commodity prices at December 31, 2023, forecast operating expenses and future development costs. The estimated recoverable amount was determined to be value in use and was based on after-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Netherlands CGU, excluding decommissioning obligations. The after-tax discount rate used in the valuation as at December 31, 2023 was 10% (pre-tax 21.7%).The impairment test concluded that

the recoverable amount of the Netherlands CGU exceeds the carrying value and accordingly there is no impairment.

The Company prepared sensitivities to determine what impact a change the key assumptions would have on the result of the impairment test. The estimated value in use for the Company's Netherland CGU was sensitive to an increase in the discount rate. An increase to the discount rate by 1% would result in an impairment in the CGU of $1 million.

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 D&P assets in Tenaz's Leduc-Woodbend CGU (Canada). In 2022, the Company recognized an impairment reversal of $4.2 million, net of depletion (2021 - $10.0 million) 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.

11. INVESTMENT IN ASSOCIATE

Tenaz has the following associate at December 31, 2023:

		% Interest held	
Name of associate	**Jurisdiction**	**December 31 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 8).

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

($000)	**Total**
Balance, December 31, 2021	-
Acquisition (Note 8)	12,591
Balance, December 31, 2022	12,591
Acquisition (Note 8)	11,182
Income from associate	3,507
Dividend	(6,140)
Foreign exchange	226
Balance, December 31, 2023	**21,366**

Summarized financial information in respect of NGT includes:

($million)	**December 31, 2023**	December 31, 2022
Total assets	**184**	182
Net liabilities	**132**	(131)
Net assets	**52**	51
Tenaz's share of net assets	**11**	5

($million)	**December 31, 2023**	December 31, 2022
Total revenue	**80**	78
Net income	**27**	25
Tenaz's share of net income	**6**	-

Investments in associate include the unamortized excess of the fair value increment recorded in the purchase price over the underlying net book value of the investee's assets and liabilities at the purchase date.

12. BANK DEBT

Bank debt was comprised of the following:

As at ($000)	**December 31** **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 December 31, 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 May 30, 2024.

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 December 31, 2023, the Company was in compliance with all debt covenants. The working capital ratio as defined was 2.38:1 and the Company was compliant with the LMR covenant.

13. DECOMMISSIONING LIABILITY

A reconciliation of the decommissioning liability is provided below:

($000)	**December 31 2023**	December 31 2022
Balance, beginning of year	**30,435**	2,569
Additions	20	15
Changes in decommissioning timing and costs	(5,594)	197
Acquisition (Note 8)	**21,754**	29,012
Settled	**(9,048)**	(256)
Accretion	**5,505**	241
Changes in discount rates	**1,585**	(1,343)
Foreign exchange	**632**	-
Balance, end of year	**45,289**	30,435
Canada	**2,174**	1,393
Netherlands	**43,115**	29,042
Current portion	**2,310**	-
Long Term portion	**42,979**	30,435

Tenaz calculated the present value of the decommissioning liability using a credit-adjusted risk-free rate, calculated using a credit spread of 9.2% as at December 31, 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 $114.2 million (December 31, 2022 - $61.3 million) with the majority of costs anticipated to be incurred between 2024 and 2038. Current cost estimates are inflated to the estimated time of abandonment using inflated cost estimates of $142.9 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:

	December 31 2023	December 31 2022
Risk-free rates		
Canada	3%	3.3%
Netherlands	2.3%	2.9%
Inflation rates		
Canada	1.6%	1.4%
Netherlands	2%	2.9%

14. 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 (000's)	Amount ($000)
Balance, December 31, 2021	28,438	64,503
Exercise of stock options	110	363
Normal course issuer bid	(455)	(1,035)
Balance, December 31, 2022	28,093	63,831
Normal course issuer bid	(1,300)	(2,956)
Balance, December 31, 2023	26,793	60,875

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 2.6 million 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 1.2 million 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 2.5 million 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:

($000, except as noted)	**Year ended December 31 2023**	Year ended December 31 2022
Share repurchase activities (number of Common Shares)		
Shares repurchased (000's)	**(1,300)**	(455)
Amounts charged to:		
Share capital	**(2,956)**	(1,035)
Retained earnings	**(910)**	281
Share repurchase cost	**(3,866)**	(754)
Average cost per share ($)	**2.97**	1.66

Warrants

	Number of Warrants (000's)	Weighted Average Exercise Price ($)/unit
Balance, December 31, 2020	-	-
Issuance of warrants on recapitalization	**2,778**	1.80
Balance, December 31, 2023, 2022 and 2021	**2,778**	**1.80**

- On October 7, 2021 the Company completed a non-brokered private placement pursuant to which 2.8 million 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.

- The warrants issued in connection with the non-brokered private placement were allocated a fair value of $3.2 million. As at December 31, 2023 the performance conditions have been fulfilled and 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.

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 December 31, 2023 is presented below:

	Number of Stock Options (000's)	Weighted Average Exercise Price ($)	Remaining contractual life (years)
Balance, December 31, 2021	2,031	2.60	2.15
Exercised	(110)	2.10	
Forfeited	(145)	2.70	
Expired	(245)	2.14	
Balance, December 31, 2022	1,531	2.70	2.71
Forfeited	(6)	3.86	
Balance, December 31, 2023	**1,525**	**2.70**	**2.89**

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), provided that the aggregate maximum number of Shares available for issuance from treasury pursuant to the redemption of all RSUs, PSUs, and DSUs granted shall not exceed 5% of the total number of issued and outstanding Common Shares from time to time (on a non-diluted basis).

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. The PSUs and RSUs vest over a period of one to three years and DSUs vest immediately upon granting.

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

	Number of TIP Awards (000's)			
	PSUs	**RSUs**	**DSUs**	**Total**
Balance, December 31, 2021	-	-	-	-
Granted	180	-	-	180
Balance, December 31, 2022	180	-	-	180
Granted	830	65	43	938
Forfeited	(2)	-	-	(2)
Balance, December 31, 2023	1,008	65	43	1,116

On August 31, 2023, 59,200 PSUs vested at a performance multiplier of 2.0 times.

The 2023 grant date fair value was $2.10 per award using a 5-day volume weighted average price.

At December 31, 2023, there were 224,143 awards available for issuance under the TIP.

Share-based Compensation

($000)	**Year ended December 31 2023**	Year ended December 31 2022
Share-based compensation:		
Stock Option Plan	**638**	1,278
Tenaz Incentive Plan	**1,409**	64
Total share-based compensation	**2,047**	1,342
Capitalized share-based compensation (Note 14)	**(189)**	(74)
Share-based compensation expensed	**1,858**	1,268

Net Income per Share

Weighted average Common Shares ($000, except Common Shares and per share amounts)	**Year ended December 31 2023**	Year ended December 31 2022
Net income – Basic and diluted	**26,547**	5,237
Weighted average Common Shares (000's)		
Basic	**27,429**	28,424
Diluted	**29,053**	28,878
Net income per share		
Basic	**0.97**	0.18
Diluted	**0.91**	0.18

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 twelve months ended December 31, 2023, 1.5 million outstanding stock options were excluded from the weighted average number of diluted Common Shares as they were anti-dilutive (2022 – 1.5 million outstanding stock options and no outstanding PSUs were excluded).

15. REVENUE

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

($000)	**Year ended December 31 2023**	Year ended December 31 2022
Heavy crude oil	**27,380**	24,789
Natural gas liquids	**1,454**	1,479
Natural gas	**36,018**	7,819
Petroleum and natural gas sales	**64,852**	34,087
Canada	**32,341**	32,035
Netherlands	**32,511**	2,052

As at December 31, 2023, receivables for revenue were $7.3 million, which are included in accounts receivable (December 31, 2022 - $9.7 million). Revenue represents Tenaz's share of commodity sales. Tenaz sells its production pursuant to fixed and variable-priced 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. Under these contracts, the Company is required to deliver a fixed volume of crude oil, natural gas, condensate, or NGLs to the contract counterparty

16. INCOME TAXES

The provision for income tax in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rates to the Company's income before taxes. This difference results from the following items:

($000)	**Year ended December 31, 2023**	Year ended December 31, 2022
Net income before taxes	20,998	5,895
Canadian corporate tax rate	23%	23%
Expected income tax expense	4,830	1,356
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	471	299
Non-deductible expenses	2	2
Change in estimates and other	(37)	79
Gain on Acquisition	(10,468)	-
Netherlands State Profit Share ("SPS") uplift	(2,231)	-
Netherlands decommissioning liability	(3,217)	-
Income from associate	(1,763)	-
Netherlands tax rate differential	6,749	395
Change in unrecognized deferred tax asset	115	(1,473)
Income tax expense (recovery)	(5,549)	658

Tenaz's combined Canadian federal and provincial income tax rate is 23% (December 31, 2022 – 23%). In the Netherlands, a 50% effective income tax rate is applied to taxable profit from upstream oil and gas activity. In calculating taxable profit, an additional 10% uplift deduction is allowed to decrease taxable profit from certain deductions, including operating expenses, general and administrative, depletion and decommissioning.

On September 30, 2022 the Council of the European Union implemented a temporary solidarity contribution on excess profits of energy companies. During the fourth quarter of 2022, the legislation outlining a solidarity contribution of 33% above a 20% increase in the average yearly taxable profits for 2018 to 2021 became substantively enacted. For the year ended December 31, 2022, Tenaz was subject to the 33% solidarity contribution on profits earned by the acquired legal entity. Income taxes on taxable profits earned after the closing of the acquisition were recorded in net income for 2022.

As at December 31, 2023, the Company has $24.9 million taxes payable related to the Netherlands operations (December 31, 2022 - $22.3 million).

The components of deferred tax assets and liabilities are as follows:

($000)	**December 31, 2023**	December 31, 2022 [(1)]
Deferred tax liabilities		
PP&E and E&E assets	(26,434)	(27,773)
Decommissioning liability	(40,988)	(13,396)
Investment in associate	11	11
Deferred tax assets		
Decommissioning liability	508	-
Derivative instruments	203	110
Lease liabilities	56	27
Non-capital losses	11,303	6,533
Share Issue Costs	231	249
Other	(41)	8
Deferred tax asset (liability)	(55,151)	(34,231)

(1) Restated for impact of adjustment of prior year PPA adjustment - refer to note 8

As at December 31, 2023, Tenaz had Canadian non-capital losses of $36.9 million (December 31, 2022 – $28.3 million) that expire between 2029 and 2042 and $6.8 million of Netherlands losses (December 31, 2022 - $Nil). Tenaz has not recognized a deferred tax asset at December 31, 2023 of $0.5 million resulting from temporary differences associated with the Canadian oil and gas assets.

The following table provides a continuity of the deferred tax liability:

($000)	**December 31, 2022**	Recognized in net income	Acquisition (Note 8)	PPA Adjustments (Note 8)	FX	**December 31, 2023**
PP&E and E&E	**(32,353)**	7,239	(5,553)	4,581	(348)	(26,434)
Decommissioning liability	**(17,007)**	(3,344)	(23,364)	3,610	(375)	(40,480)
Investment in associate	**(854)**	-	-	865	-	11
Derivative instruments	**110**	93	-	-	-	203
Lease liabilities	**27**	29	-	-	-	56
Non-capital losses	**6,533**	1,935	2,885	-	(50)	11,303
Share Issue Costs	**249**	(18)	-	-	-	231
Other	**8**	(49)	-	-	-	(41)
Deferred tax asset (liability)	**(43,287)**	5,887	(26,032)	9,056	(775)	(55,151)

17. FINANCIAL INSTRUMENTS

At December 31, 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 Company is exposed to credit risk through its cash and cash equivalents and restricted cash balances held with various financial institutions, including JPMorgan Chase Bank (JPM), Alberta Treasury Branches (ATB), and Citibank (CITI). Cash balances held with these institutions are subject to credit risk, which is the risk that the counterparty may default on its obligations, leading to a potential loss of the Company's cash assets.

Management mitigates this risk by maintaining cash balances with reputable financial institutions with strong credit ratings and a proven track record of financial stability and reliability. JPM, ATB, and CITI are globally recognized banking institutions with robust risk management practices and strong capital positions. These banks are well-regarded for their stability, liquidity, and adherence to regulatory standards.

The Company regularly monitors the financial health and credit ratings of its banking partners and limits the concentration of cash deposits with any single institution to manage exposure. As of December 31, 2023 the Company has assessed the credit risk associated with its cash balances and considers the risk of default to be low. However, there can be no assurance that a counterparty will not default in the future, which could result in a loss of cash assets.

The majority of the credit exposure on accounts receivable at December 31, 2023, pertains to revenue for accrued December 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 delivery. At December 31, 2023, 67% of total outstanding accounts receivable pertains to the top 7 purchasers (December 31, 2022 – 92%). As at December 31, 2023, receivables for revenue were $6.8 million and joint venture receivables were $ 1.2 million (December 31, 2022 - $9.4 million and $0.6 million respectively). For the twelve months ended December 30, 2023, the Company received approximately 89% of its revenue from 7 purchasers (2022 – 92% of its revenue from 7 purchasers).

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

As at ($000)	**December 31** **2023**	December 31 2022
Current	6,835	10,081
31 – 60 days	198	169
61 – 90 days	820	-
> 90 days	149	1
Allowance for doubtful accounts	**-**	-
Total	8,002	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 18) 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 December 31, 2023, Tenaz had a current tax liability of $24.9 million related to the Netherlands operations, which is net of instalments paid to the Dutch Tax Authority. The current tax liability consists of a receivable of $2.1 million related to corporate income tax ("CIT") and state profit share ("SPS") due to adjusted tax estimates along with $27.0 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 is payable in May 2024.

As at December 31, 2023, the Company was holding $50.3 million in cash and cash equivalents, $32.9 million (€22.5 million) in restricted cash and had $10.0 million available on undrawn Credit Facilities (Note 12).

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 December 31, 2023, the Company was in compliance with all its bank debt covenants under the existing credit facility.

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

Tenaz is exposed to commodity price risk on its derivative assets and liabilities which are used as part of the Company's risk management program to mitigate the effects of changes in commodity prices on future cash flows. As such, changes in commodity prices impact the fair value of derivative instruments and the corresponding gains or losses recognized on derivative instruments. As at December 31, 2023 Tenaz had no outstanding commodity derivative contracts.

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 December 31, 2023, Tenaz held the following foreign currency swaps (December 31, 2022 - $0.5 million liability):

Period	Type of Contract	Notional Amount	Notional Amount	Average Rate	Fair Value at December 31 2023 ($000)
Foreign Currency Swaps					
January 2024	Swap	EUR 34,000,000	CAD 50,320,000	1.4800	(812)
January 2024	Swap	EUR (1,000,000)	CAD (1,465,950)	1.4660	4
January 2024	Swap	EUR (33,000,000)	CAD (48,477,000)	1.4690	234
February 2024	Swap	EUR 33,000,000	CAD 48,543,000	1.4710	(264)
Derivative instrument liability					(838)

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 December 31, 2023, Tenaz had not drawn on its interest-bearing credit facilities and had no outstanding risk management contracts that would be affected by interest rates.

Derivative instruments

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

($000)	Commodity	Foreign currency	December 31 2023
Derivative instrument assets	-	238	**238**
Derivative instrument liabilities	-	(1,076)	**(1,076)**
Net financial derivative instrument asset (liability)	-	(838)	**(838)**

($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)	Year ended December 31 2023	2022
Realized gain (loss)		
Commodity contracts	**243**	(1,824)
Foreign currency swaps	**359**	-
Realized gain (loss) on derivatives	**602**	(1,824)
Unrealized gain (loss)		
Commodity contracts	**48**	552
Foreign currency swaps	**(409)**	(428)
Unrealized gain (loss) on derivatives	**(361)**	124
Gain (loss) on derivatives	**241**	(1,700)

18. 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 measure to assess the Company's financial position and liquidity (Note 17). 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 December 31, 2023 and December 31, 2022 is summarized as follows:

($000)	December 31 2023	December 31 2022
Current assets	**92,488**	72,317
Current liabilities	**(43,988)**	(58,644)
Net working capital	**48,500**	13,673
Exclude fair value of derivative instruments	**838**	476
Adjusted working capital	**49,338**	14,149

The Company has not paid or declared any dividends since the date of incorporation. Details of the Company's NCIB are described in Note 14. Details of the Company's restricted cash pertaining to decommissioning security for Tenaz's Netherlands assets are described in Note 7.

19. SUPPLEMENTAL INFORMATION

Cash flow

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

($000)	**Year ended December 31, 2023**	Year ended December 31, 2022
Provided by (used in):		
Accounts receivable	**3,929**	(3,183)
Prepaid expenses and deposits	**103**	(847)
Accounts payable and accrued liabilities	**(941)**	2,398
Taxes payable	**(5,448)**	527
	(2,357)	(1,105)
Provided by (used in):		
Operating activities	**(274)**	991
Investing activities	**(2,083)**	(2,096)
	(2,357)	(1,105)

20. COMMITMENTS AND CONTINGENCIES

The Company's bank debt commitments at December 31, 2023 are described in Note 12.

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.

21. RELATED PARTY DISCLOSURES

Key management personnel compensation

Tenaz's key management personnel consists of its officers and directors. Short-term benefits are composed of salaries and directors' fees, annual bonuses, and other benefits. In addition, the Company provides share-based compensation to its key management personnel under the Stock Option Plan and the TIP. The compensation relating to key management personnel is as follows:

($000)	**Year ended December 31, 2023**	Year ended December 31, 2022
Short-term benefits	2,865	2,844
Share-based compensation	1,542	1,248
	4,407	4,092

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

LEGAL COUNSEL

Lawson Lundell LLP
Calgary, Alberta

Torys LLP
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

ATB Financial
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Odyssey Trust Company
Calgary, Alberta

STOCK TRADING

Toronto Stock Exchange (“TSX”)
Trading Symbol: **TNZ**

TENAZ ENERGY

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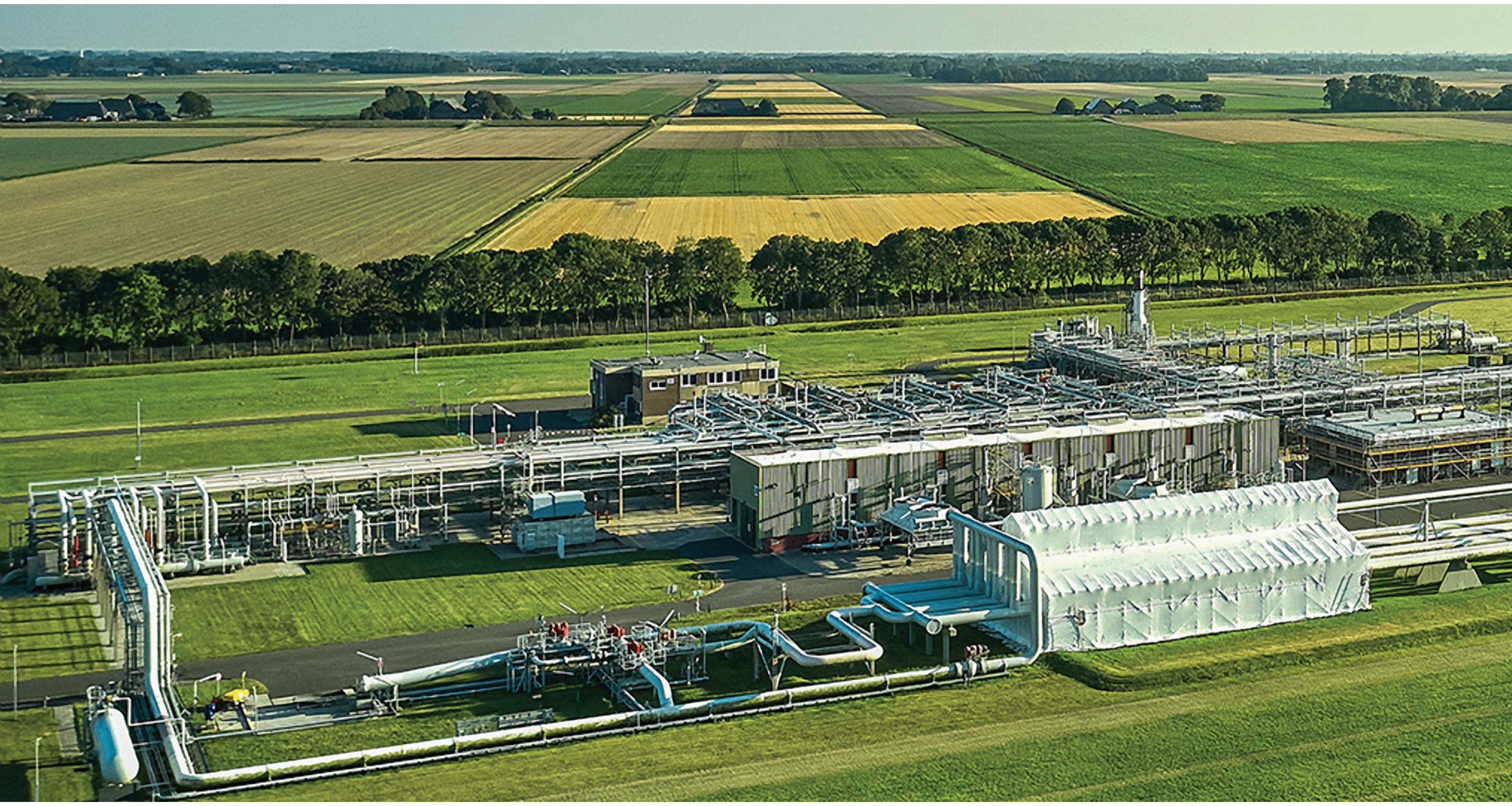

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