2022 SECOND QUARTER REPORT

Tenaz Energy

FINANCIAL AND OPERATIONAL SUMMARY

($000 CAD, except per share and per boe amounts)	Three months ended **Jun 30, 2022**	Mar 31, 2022	Jun 30, 2021	Six months ended **Jun 30, 2022**	Jun 30, 2021
FINANCIAL					
Petroleum and natural gas sales	**9,344**	6,201	4,220	**15,545**	7,660
Cash flow from operating activities	**1,936**	1,158	763	**3,094**	1,590
Funds flow from operations(1)	**2,104**	992	1,125	**3,096**	1,934
Per share – basic(1)(4)	**0.07**	0.03	0.10	**0.11**	0.18
Per share – diluted(1)(3)(4)	**0.07**	0.03	0.10	**0.11**	0.18
Net income (loss)(2)	**769**	3,497	(532)	**4,266**	(1,508)
Per share – basic(2)(4)	**0.03**	0.12	(0.05)	**0.15**	(0.14)
Per share – diluted(2)(3)(4)	**0.03**	0.12	(0.05)	**0.15**	(0.14)
Capital expenditures(1)	**3,512**	719	427	**4,231**	1,937
Property dispositions	**-**	-	(1,312)	**-**	(1,750)
Adjusted working capital (net debt)(1)	**19,431**	20,995	(2,200)	**19,431**	(2,200)
Common Shares outstanding (000)					
End of period – basic(4)	**28,548**	28,458	10,892	**28,548**	10,892
Weighted average for the period – basic(4)	**28,481**	28,457	10,892	**28,469**	10,892
Weighted average for the period – diluted(3)(4)	**29,241**	29,361	10,892	**28,914**	10,892
OPERATING					
Average daily production					
Heavy crude oil (bbls/d)	**636**	515	528	**576**	512
NGLs (bbls/d)	**61**	62	57	**61**	55
Natural gas (Mcf/d)	**2,524**	2,579	2,543	**2,551**	2,450
Total (boe/d)(5)	**1,117**	1,007	1,009	**1,062**	975
($/boe)(5)					
Petroleum and natural gas sales	**91.90**	68.44	45.97	**80.84**	43.39
Royalties	**(17.11)**	(10.38)	(5.15)	**(13.93)**	(4.81)
Operating expenses	**(14.47)**	(21.02)	(13.96)	**(17.56)**	(13.57)
Transportation expenses	**(3.12)**	(1.57)	(2.45)	**(2.39)**	(2.22)
Operating netback(1)	**57.20**	35.47	24.41	**46.96**	22.79
BENCHMARK COMMODITY PRICES					
WTI crude oil (US$/bbl)	**108.41**	94.29	66.07	**101.35**	61.96
WCS (CAD$/bbl)	**122.08**	101.03	66.97	**111.56**	62.20
AECO daily spot (CAD$/GJ)	**6.88**	4.52	2.93	**5.70**	2.96

(1) This is a non-GAAP and other financial measure. Refer to “Non-GAAP and Other Financial Measures” included in the “Advisories” section of the Management’s Discussion & Analysis for the three and six months ended June 30, 2022 (“MD&A”).
(2) Prior period amounts have been restated. Refer to the “Change in Accounting Policies” section included in the MD&A.
(3) Basic weighted average shares are used to calculate diluted per share amounts in periods in which there is a loss position.
(4) 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.
(5) The term barrels of oil equivalent (“boe”) may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. Refer to “Barrels of Oil Equivalent” section included in the “Advisories” section of the MD&A.

HIGHLIGHTS

- Subsequent to the end of the second quarter, we terminated our proposed merger with SDX Energy Plc. We had earlier announced that an SDX shareholder group that was opposed to the merger had established a share position of sufficient size to block the transaction. At the SDX shareholder meeting to vote on the proposed Scheme of Arrangement ("the Scheme"), enough of this share block voted negatively to prevent the Scheme from becoming effective. After consideration of the alternative path of pursuing the transaction in the form of a Takeover Offer, we determined that majority control of SDX via a Takeover Offer would provide excessive cost and inadequate scale to warrant further action by Tenaz.
- Late in Q2 2022, we commenced our two-well summer drilling program in the Leduc-Woodbend field. We have now completed the drilling and fracture stimulation of 2.0 (1.75 net) wells, and will finish completing and equipping these wells for first production during Q3 2022. The second well in this program had a horizontal length of 2.0 miles, a significant increase over previous well lengths in this field. As a result of improvements in our geologic model and frac design, these wells were drilled entirely within Rex pay sand and had 99% of planned frac stages placed.
- Total capital expenditures for the second quarter were $3.5 million, bringing year-to-date investment to $4.2 million. Annual capital guidance for 2022 has been updated from $5.8 million to $8.0 million, driven by increased well lengths and frac intensity, services inflation and the cost of open hole sidetracking in one of the wells we drilled.
- Production volumes averaged 1,117 boe/d[(1)] in the quarter, an increase of 11% compared to Q1 2022, driven primarily by continued cleanup of two wells drilled at the end of 2021. These wells are now producing on their expected type curve. With the addition of the two new wells from the Q2 2022 campaign, which are currently being completed, production rates are expected to increase through the second half of 2022.
- Funds flow from operations ("FFO")[(2)] for the quarter was $2.1 million, up 112% from Q1 2022. Higher FFO resulted from higher commodity prices, higher production and lower well servicing costs. These positive factors were partially offset by $1.5 million in transaction costs for the terminated SDX combination and by realized hedging losses of $0.9 million. We have no remaining hedge positions as of the end of Q2 2022.
- Net income for the quarter was $0.8 million ($0.03 per share) versus a loss in the same quarter of 2021. Higher commodity prices and production increased the profitability of our operations, but were partially offset by transaction costs from the terminated SDX combination.
- We ended the quarter with positive adjusted working capital[(2)] of $19.4 million, providing flexibility in deploying capital in our acquisition strategy and organic investment program. In addition to our working capital balance, our liquidity has also been enhanced by establishing a $10.15 million demand facility with ATB Financial as sole lender.
- We have received Toronto Stock Exchange ("TSX") approval of our notice of intention to make a Normal Course Issuer Bid ("NCIB"), and expect to commence a share buyback program on or after August 12, 2022.

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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 of this MD&A.

[2] This is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section of the accompanying MD&A.

PRESIDENT'S MESSAGE

Our vision is to build a leading intermediate-size E&P by targeting acquisition of high-quality assets in global markets. When we announced the proposed acquisition of SDX Energy Plc (the "Transaction"), we viewed it as a small but high-return step in the direction of establishing a base within our primary targeted region of Europe-MENA. Our approach in identifying and negotiating the Transaction was consistent with our philosophy of careful asset evaluation, uncovering opportunities for operational improvement, and establishing favorable terms for Tenaz shareholders. The Transaction, as originally formatted under the Scheme, exceeded our criteria for rate of return, accretion, free cash generation under Tenaz operation, opportunity for operational improvement and geographic location.

When a competitor group bought SDX shares and established what proved to be a blocking position for our negotiated Scheme, we evaluated whether the Transaction could still meet the strategic objectives we originally identified. The primary course remaining available to us would have been a Takeover Offer to seek a majority of SDX shares. We determined that, while we may have been successful in acquiring a majority of SDX shares through a tender, the result would have been undesirable from a standpoint of additional transaction costs, ongoing G&A expense, and limited materiality of our ownership in the SDX assets.

The UK market has significant costs associated with effecting a merger, and we have a philosophy of full compliance with regulatory requirements in all jurisdictions to which we are subject. In this transaction, we incurred $1.5 million in costs for legal services, regulatory fees and the establishment of a bridge lending facility to implement the cash element of our offer to SDX shareholders. These costs are recorded as a current period expense in our Q2 2022 financial statements. We expect an additional $0.3 million of transaction expense in Q3 2022 to reflect costs through to the windup of the Transaction. Despite these financial costs and the organizational effort to mount this merger effort, we maintained our discipline of not chasing deals when conditions change to adversely affect our value proposition.

We have developed a stronger pipeline of acquisition prospects than at any previous time in terms of both quality and scale. While we were working on the SDX transaction, we continued to advance those prospects, testing them under consistent criteria to ensure shareholder value creation when employing acquisition capital. The assets in this acquisition pipeline are primarily located within our highest priority geographic region of Europe-MENA, with a lesser representation in the Americas. We believe we will be able to execute our acquisition-oriented business model out of our existing pipeline. Although the higher commodity environment creates some obstacles to transacting, it also offers opportunities for higher returns in cases where transaction consideration does not keep up with higher product prices.

In the meantime, we believe our strong financial condition, as reflected in our $19.4 million working capital balance as at mid-year, enhances the flexibility of our model. An example is the share buyback program as an efficient use of a modicum of capital. In our view, the NCIB is consistent with our overall corporate strategy as it is intended to invest in our stock at a time of lower market valuation, smooth equity price volatility, and contribute to an environment in which significant future acquisitions may be primarily funded with new equity issuance. In addition, as discussed below, we have put in place a $10.15 million revolving credit facility to further enhance our liquidity position.

In the nearer term, capital deployment on our existing Leduc-Woodbend semi-conventional oil development project offers strong returns, which we believe will be further enhanced by technical advancements which have occurred in this year's development program. We have made improvements in two fundamental areas of geologic description and frac design. More accurate geologic description made it possible to place the horizontal laterals in this summer's program entirely within the targeted Rex pay. An improved proppant schedule decreased frac water volumes and allowed nearly 100% placement of planned frac stages at higher proppant bed conductivities. These technical improvements are examples of what we plan to do in our acquisition program as well, seeking to create value in both our initial transaction terms and in identifying and realizing opportunities for operational improvement in the acquired assets.

We appreciate the support our shareholders have provided, starting with last year's recapitalization, and reinforced with the nearly unanimous vote of our shareholders to approve the resolution associated with the SDX Transaction. We have redoubled our efforts to bring a high return and materially-sized acquisition to fruition, and in the meantime will develop our Alberta project with increased technical and operational efficiency.

TSX Graduation

On May 12, 2022, following approval from the Toronto Stock Exchange ("TSX"), Tenaz's Common Shares were listed on the TSX and commenced trading under the symbol "TNZ" at which time trading on the TSX Venture Exchange ceased.

Normal Course Issuer Bid

Having received TSX approval of our notice of intention to make a Normal Course Issuer Bid ("NCIB"), we expect to commence share purchases on or after August 12, 2022.

The purpose of the NCIB is to deploy cash resources from current cash on hand and future free cash flow to purchase our common shares ("Shares") in the open market. In commencing the NCIB, our objectives include repurchasing Shares while we perceive our equity valuation to be relatively low as compared to the value of our underlying business and to smooth volatility associated with periods of lower trading activity. While our corporate strategy calls for future issuances of Shares as a means to fund significant acquisitions, we view the current time as opportune to acquire Shares in the open market. In our view, the NCIB will enhance trading liquidity and potentially help to create a more constructive environment for future Share issuances.

We have received TSX approval to purchase the maximum allowable number of Shares over the next twelve-month period (up to 2,619,970 Shares representing approximately 9.2% of the outstanding Shares and 10% of the public float of Shares). The actual number of Shares ultimately purchased will be a function of several factors including, but not limited to, the market price of the Shares, the maximum daily allowable repurchase volume under TSX rules, the commodity price outlook, and other factors deemed relevant by the Board of Directors of Tenaz. Purchases made pursuant to the NCIB will be made in the open market through the facilities of the TSX or through alternative Canadian trading systems. Shares purchased pursuant to the NCIB will be cancelled. The number of Shares that can be purchased is subject to a daily maximum of 6,108 Shares, subject to certain prescribed exceptions, which is 25% of the average daily trading volume for the Shares on the TSX for the relevant period preceding our application. Average TSX volume was 24,435 Shares for the period from our TSX graduation on May 12, 2022 to July 31, 2022.

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

Bank Facility

During the second quarter 2022, at the time of our proposed merger with SDX, Tenaz entered into an amended and restated commitment letter with ATB Financial, our primary Canadian lender. The agreement provided for two credit facilities to allow for, amongst other uses, the immediate posting of cash into an escrow account for a cash consideration option for SDX shareholders. The overall limit granted under the commitment was $20.15 million of which $10 million was specifically designated for the SDX cash confirmation process. Subsequent to the end of Q2 and following the return of funds from escrow upon termination of the combination with SDX, Tenaz repaid the entire drawn portion of the facilities. We retain credit availability under the undrawn $10.15 million operating facility going forward. The operating facility is revolving, subject to redeterminations by the lender and bears interest at market rates. This new $10.15 million facility enhances our prior $4 million facility and creates increased flexibility as we continue with both the development of our Canadian asset base and our global acquisition strategy.

Operations Update

In addition to pursuing our international acquire-and-exploit strategy, Tenaz is developing a high quality semi-conventional project in the Leduc-Woodbend area of Alberta, Canada. This project targets the Rex zone within the Mannville formation across a contiguous asset base with Tenaz-owned infrastructure. This oil-weighted play offers significant advantages, including robust drilling economics, a large operated land position, largely self-sufficient infrastructure with excess capacity, ease of surface access, and low abandonment obligations. We will continue to develop this project to generate moderate growth and free cash flow that can be deployed in support of our overall corporate strategy.

In this project, Q2 2022 production averaged 1,117 boe/d in the quarter, an increase of more than 11% compared to Q1 2022. The higher production reflects increased contribution from two wells drilled at the end of 2021. Both wells have continued to clean up and are now on their expected 1.5-mile type curves.

Late in Q2 2022, we commenced our two-well summer drilling program, as contemplated within our capital budget and guidance. As of the date of this report, we have completed the drilling and fracing of these two (1.75 net) wells with planned production start-up later in Q3 2022. The first well in this campaign had a horizontal length of 1,968 meters (1.2 miles) and was completed with 71 fracs placed out of 72 planned stages. The second well had a horizontal length of 3,242 meters (2.0 miles) and was completed with 115 fracs placed out of 116 planned stages. This well is the longest horizontal well yet drilled in the Leduc-Woodbend field. Once online, these wells should contribute to increased field production rates throughout the second half of 2022.

Capital guidance for 2022 has increased from $5.8 to $8.0 million following the completion of these wells, driven by longer well lengths with more frac stages, higher-than-budgeted inflation in services prices, and costs for open-hole sidetracking in one of the wells due to a stuck drill pipe event. Both wells were drilled essentially 100% within Rex pay, and were completed with 99% of frac stages placed in our most ambitious completions yet. While more expensive than originally planned, we expect these wells to realize stronger long-term production performance and economics than other wells we have drilled to date.

Our Leduc-Woodbend project has a significant drilling inventory capable of providing production growth for a number of years. We plan to continue to develop this valuable land base into a business unit of appropriate scale over the coming years with funding from internally generated cash flow. We view this ongoing semi-conventional development project as a small but worthwhile component of our overall growth and free cash flow-oriented strategy. In view of the strong rates of return and rapid payouts from the Rex program at Leduc-Woodbend, we may elect to drill two additional wells later this year, depending on our ability to secure suitable drilling and completion services. This additional drilling would seek to incorporate the improvements in geologic description, well length and frac design we have established during our most recent drilling program, with attendant improvements in expected returns.

/s/ Anthony Marino

President and Chief Executive Officer
August 5, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("**MD&A**") of financial condition and results of operations for Tenaz Energy Corp. (formerly Altura Energy Inc. or "**Altura**") (the "**Company**" or "**Tenaz**") is dated August 5, 2022 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2022 and 2021, the audited consolidated financial statements and related notes for the year ended December 31, 2021, as well as the Company's Annual Information Form ("**AIF**") that is found on SEDAR at www.sedar.com. The Company's unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), and sometimes referred to in this MD&A as Generally Accepted Accounting Principles or ("**GAAP**"), specifically International Accounting Standard 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board.

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 Canadian dollar thousands unless otherwise noted.

Change in Accounting Policies

Effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to the discounting of its decommissioning liability. As a result, certain comparative information has been restated in this MD&A. Refer to the "Change in Accounting Policies section" of this MD&A for a description of the changes and the impact on the Company's financial statements.

Share Consolidation

On December 23, 2021, the Company completed a 10-to-1 share consolidation. The number of common shares of the Company ("**Common Shares**"), warrants and stock options outstanding have been adjusted on a retroactive basis and have been presented in this MD&A on a post-consolidation basis.

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. In addition, Tenaz conducts development of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. Additional information regarding Tenaz is available on SEDAR and on its website at www.tenazenergy.com. Tenaz's Common Shares are listed for trading on the Toronto Stock Exchange under the symbol "TNZ".

REORGANIZATION

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

TSX GRADUATION

On May 12, 2022, following approval from the Toronto Stock Exchange ("**TSX**"), Tenaz's Common Shares were listed on the TSX and commenced trading under the symbol "TNZ" at which time trading on the TSX Venture Exchange ceased (the "**TSX Graduation**").

As previously communicated, Tenaz views the TSX Graduation as a natural step in executing the corporate strategy outlined at the time of the Reorganization.

OFFER TO ACQUIRE SDX ENERGY PLC AND TERMINATION OF ACQUISITION

On May 25, 2022, it was announced that the Boards of Directors of Tenaz and SDX Energy Plc ("**SDX**"), a UK-listed oil and gas company headquartered in London, had reached agreement on the terms of a recommended share-for-share combination between Tenaz and SDX (the "**Transaction**"). The Transaction was to be implemented by means of a United Kingdom court-sanctioned Scheme of Arrangement with the entire issued and to be issued ordinary share capital of SDX being acquired by Tenaz.

On June 30, 2022, the Company announced the addition of a cash alternative (the "**Cash Alternative**") to the Transaction. Under the terms of the Cash Alternative, SDX shareholders were to retain the right to receive Tenaz Common Shares for each SDX share ("**SDX Share**"), but were also provided with an option to receive cash consideration for each SDX Share in lieu of receiving Tenaz Common Shares.

In order to provide the Cash Alternative, Tenaz used its existing cash balance, supplemented by a reserve-based credit facility from its Canadian lender, and transferred £25.0 million ($39.5 million) into escrow in June 2022, held as restricted cash at June 30, 2022. In addition, Tenaz also entered into foreign currency swaps in June 2022 to mitigate the escrow's foreign currency risk.

The completion of the Transaction required Tenaz and SDX shareholder and regulatory approvals. The results of the SDX shareholder vote held on July 29, 2022, as represented by SDX, did not meet the required threshold of 75% of voted shares in favour of the Scheme. Based on the results of the SDX vote, Tenaz decided not to hold its Special Meeting of Shareholders on July 29, 2022 and terminated the proposed acquisition of SDX. On August 4, 2022, the £25.0 million held in escrow was transferred back into Tenaz's bank account, the outstanding balances on the Credit Facilities were repaid, and the foreign exchange swaps were settled.

2022 GUIDANCE

	August 5, 2022 Updated Guidance	March 24, 2022 Guidance
2022 average production volumes (boe/d)	Unchanged	1,200 to 1,300
Capital expenditures(1) ($000)	8,000	5,800
Wells:		
Drilled	2 (1.75 net)	2 (1.75 net)
Completed	2 (1.75 net)	2 (1.75 net)

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

Guidance for 2022 capital expenditures has been increased from $5.8 million to $8.0 million. The change in the estimated spending for 2022 reflects the impact of longer wells and more frac stages than originally planned, inflation of costs of services, and the impact of open-hole side-tracking in one of the two wells in the summer 2022 drilling program.

RESULTS OF OPERATIONS

Operational and Financial Review

	Q2 2022	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Production					
Heavy crude oil (bbls/d)	**636**	515	528	**576**	512
Natural gas liquids ("NGLs") (bbls/d)	**61**	62	57	**61**	55
Natural gas (Mcf/d)	**2,524**	2,579	2,543	**2,551**	2,450
Total (boe/d)	**1,117**	1,007	1,009	**1,062**	975
Net income (loss)(1)	**769**	3,497	(532)	**4,266**	(1,508)
Per share - basic(1)(4)	**0.03**	0.12	(0.05)	**0.15**	(0.14)
Per share – diluted(1)(2)(4)	**0.03**	0.12	(0.05)	**0.15**	(0.14)
Cash flow from operating activities	**1,936**	1,158	763	**3,094**	1,590
Funds flow from operations(3)	**2,104**	992	1,125	**3,096**	1,934
Per basic share(3)(4)	**0.07**	0.03	0.10	**0.11**	0.18
Per basic diluted share(2)(3)(4)	**0.07**	0.03	0.10	**0.11**	0.18
Adjusted working capital (net debt)(3)	**19,431**	20,995	(2,200)	**19,431**	(2,200)
Activity					
Capital expenditures(3) ($000)	**3,512**	719	427	**4,231**	1,937
Property dispositions ($000)	**-**	-	(1,312)		(1,750)
Wells drilled - Gross/(Net)	**2 (1.8)**	-	-	**2 (1.8)**	-
Wells completed - Gross/(Net)	**-**	**2 (1.8)**	-	**2 (1.8)**	1 (0.9)

(1) Prior period amounts have been restated. Refer to the "Change in Accounting Policies" section in the MD&A.
(2) Basic weighted average shares are used to calculate diluted per share amounts in periods in which there is a loss position.
(3) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(4) 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.

Production

Tenaz's production in Q2 2022 increased 11% to 1,117 boe/d compared to the prior quarter and Q2 2021. The change in quarter-over-quarter production reflected higher contributions from the two (1.8) net Rex wells brought online during Q1 2022. The increased production from the new wells along with reduced downtime more than offset natural decline of the base wells.

Production in Q2 2022 and the first half of 2022 was higher than the same periods in the prior year largely as a result of increased production from putting the 2021 wells on production, partially offset by natural declines and higher than expected downtime during Q1 2022. Production is expected to continue to increase as the two wells drilled in Q2 2022 contribute, primarily in Q4 2022 once through their clean-up periods.

Net Income (loss)

The Company's Q2 2022 net income was $0.8 million compared to a net loss of $0.5 million in Q2 2021. The increased net income primarily reflects higher commodity prices and production partially offset by charges included in the quarter for transaction costs of $1.5 million associated with the terminated Transaction.

In comparing the six months ended June 30, 2022 to the prior year, positive impacts from increased profitability of our operating business and a reversal of impairment of $4.2 million recorded in Q1 2022 were partially offset with the transaction costs recognized in Q2 2022 described above. Overall, current period earnings reflect increased sales revenue from higher commodity prices and production volumes, partially offset by higher royalties, operating expenses, DD&A expenses, G&A expenses, and share-based compensation expenses.

Funds flow from operations

In Q2 2022, funds flow from operations of $2.1 million was an increase by 87% over Q2 2021 and 112% compared to Q1 2022. The increase primarily reflects increased sales revenue from higher commodity prices and production volumes, partially offset by higher royalties and costs associated with Tenaz's acquisition strategy, including both ongoing general and administrative expenses and transaction costs from the terminated Transaction.

Benchmark Commodity Prices

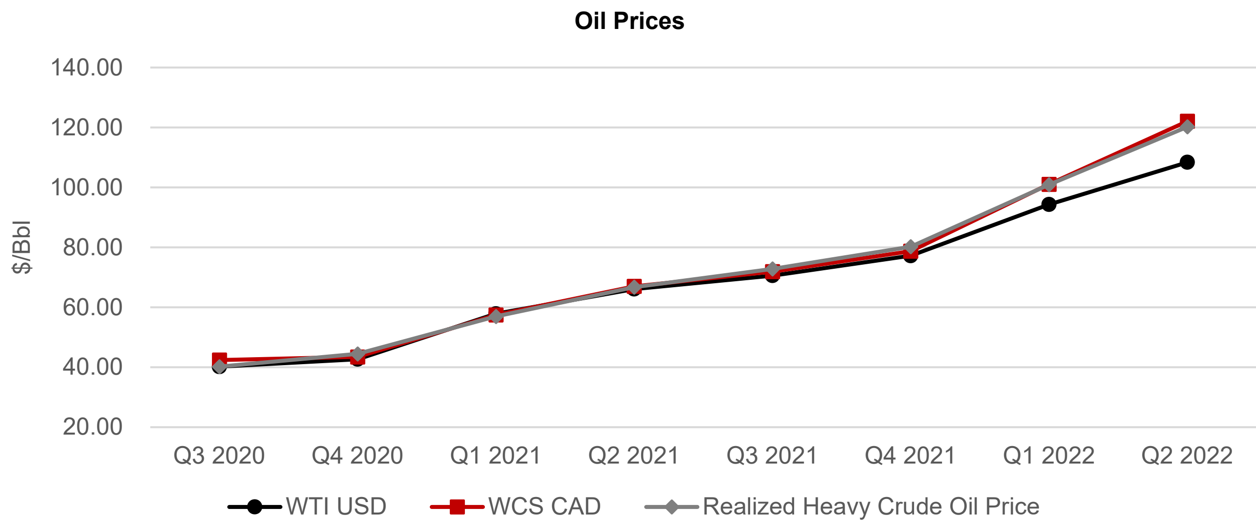
	Q2 2022	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Average Benchmark Prices					
WTI crude oil (US$/bbl)(1)	**108.41**	94.29	66.07	**101.35**	61.96
WCS differential (US$/bbl) (2)	**(12.77)**	(14.48)	(11.49)	**(13.61)**	(11.98)
US$/CAD$ exchange rate	**0.783**	0.790	0.814	**0.786**	0.802
WCS (CAD$/bbl)	**122.08**	101.03	66.97	**111.56**	62.20
AECO daily spot (CAD$/GJ)	**6.88**	4.52	2.93	**5.70**	2.96
Average Realized Prices(3)					
Heavy crude oil ($/bbl)	**120.21**	100.92	66.71	**111.63**	61.99
Natural gas liquids ($/bbl)	**94.99**	58.74	44.45	**76.84**	43.05
Natural gas ($/Mcf)	**8.11**	5.15	3.39	**6.62**	3.35
Petroleum and natural gas sales ($/boe)	**91.90**	68.44	45.97	**80.84**	43.39

(1) WTI represents posting price of West Texas Intermediate 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) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.

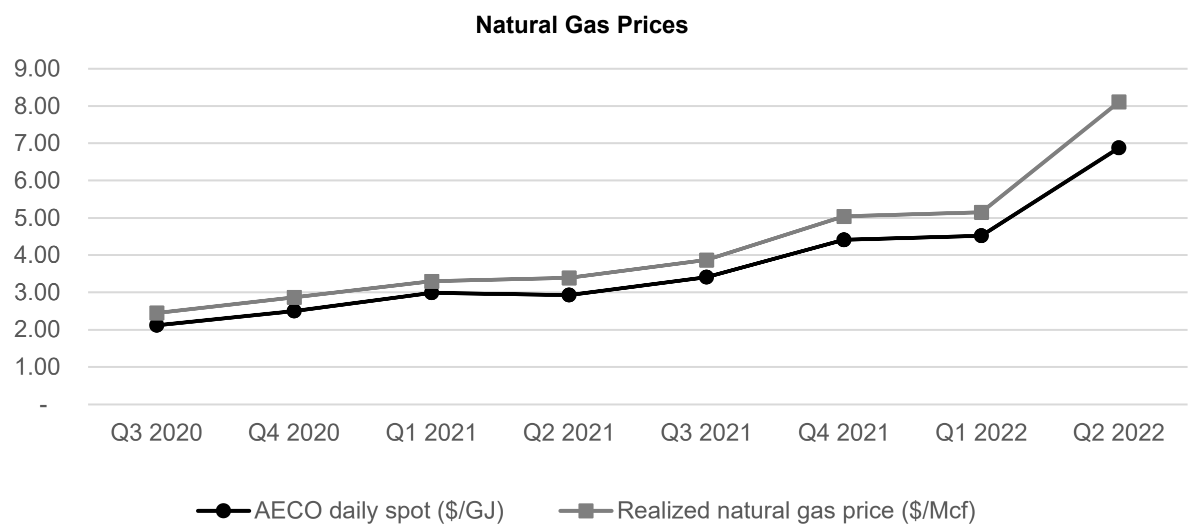
Tenaz currently sells its crude oil on a monthly index basis and natural gas production on a spot basis. The average realized price the Company receives for its crude oil and natural gas production depends on several factors, including the average benchmark prices for crude oil and natural gas, the US-to-Canadian 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 oil price and the WCS oil price. The differential between WTI and WCS oil prices can widen 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, high inventory levels in North America and lack of pipeline infrastructure or takeaway capacity connecting key consuming oil markets.

Increases have continued quarter-over-quarter for oil and gas prices due to global supply reductions and increased consumption as the world more fully emerges from the impact of the global pandemic. The increase in WTI and a narrower WCS differential in relation to the underlying WTI resulted in WCS increasing 21% from Q1 2022 to $120.21 per barrel in Q2 2022. Crude sold by Tenaz closely tracks WCS but the exact price of crude received is a function of the sales point to which the product is delivered.



In Q2 2022, Tenaz's realized natural gas price increased by 139% to $8.11 per Mcf from Q2 2021 while the AECO daily spot price increased 135% to $6.88 per GJ from Q2 2021. Natural gas sold by Tenaz tracks the AECO daily spot.



Financial Review

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Sales					
Heavy crude oil	**6,953**	4,681	3,203	**11,634**	5,746
Natural gas liquids	**527**	326	232	**853**	429
Natural gas	**1,864**	1,194	785	**3,058**	1,485
Petroleum and natural gas sales	**9,344**	6,201	4,220	**15,545**	7,660
Royalties	**(1,740)**	(940)	(473)	**(2,680)**	(850)
Operating	**(1,471)**	(1,905)	(1,280)	**(3,376)**	(2,396)
Transportation	**(318)**	(142)	(225)	**(460)**	(391)
General and administrative expenses	**(1,410)**	(1,246)	(410)	**(2,656)**	(875)
Transaction costs	**(1,457)**	-	-	**(1,457)**	-
Interest and financing expenses	**9**	(5)	(95)	**4**	(199)
Realized foreign exchange loss	**-**	-	-	**-**	-
Realized loss on derivatives	**(853)**	(971)	(612)	**(1,824)**	(1,015)
Funds flow from operations(1)	**2,104**	992	1,125	**3,096**	1,934
Changes in non-cash operating working capital	**(168)**	166	(362)	**(2)**	(344)
Cash flow from operating activities	**1,936**	1,158	763	**3,094**	1,590

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

Petroleum and Natural Gas Sales

Petroleum and natural gas sales in Q2 2022 increased 51% to $9.3 million compared to $6.2 million in Q1 2022 and 121% compared to $4.2 million in Q2 2021. Petroleum and natural gas sales in the first half of 2022 increased 103% to $15.5 million compared to $7.7 million in the first half of 2021. These increases resulted from a combination of increased realized commodity prices and production. The increase in commodity prices was driven primarily by the global oil supply shortage exacerbated by Russia's invasion of Ukraine in Q1 2022. In addition, the global natural gas market has also experienced price increases, with storage levels exhibiting slower-than-normal builds as Europe struggles to replace Russian supply with LNG cargos.

Royalties

In Q2 2022, royalty expense increased to 18.6% of sales ($17.11 per boe) compared to 11.2% of sales ($5.15 per boe) in Q2 2021 and 15.2% of sales ($10.38 per boe) in Q1 2022. In the first half of 2022, royalty expense increased to 17.2% of sales ($13.93 per boe) compared to 11.1% of sales ($4.81 per boe) in the first half of 2021. These increases are reflective of higher average royalty rates on Crown lands due to increased commodity prices, as Crown royalty rates vary depending on the product reference price and the vintage of wells coming off royalty holidays. Partially offsetting the higher commodity prices were a number of recently drilled wells that benefit from the Crown's flat royalty rate of 5% on early production under the Drilling and Completion Cost Allowance program.

Operating

Operating expenses normalized in Q2 2022 to $1.5 million or $14.47 per boe compared to $1.9 million ($21.02 per boe) in Q1 2022 and $1.3 million ($13.96 per boe) in Q2 2021, mainly due to reduced servicing activity during Q2 2022, partially offset by continued increases in fuel, electricity and chemical costs.

Operating expenses increased to $17.56 per boe in the first half of 2022 compared to $13.57 per boe in the first 6 months of 2021. The year-over-year increase in unit operating expense was driven by two factors. First, higher-than-expected well servicing activity was experienced in Q1 2022 along with general inflation across our cost base. Second, the unusually high number of pump, rod and tubing repairs increased downtime and decreased potential production, thereby increasing unit costs.

Transportation

Transportation expenses increased in Q2 2022 compared to both the prior quarter and the same period in 2021 due to trucking of crude to various sales points for optimal blending of the crude produced in the quarter. First half 2022 transportation costs were largely consistent on an absolute expense and per unit basis with costs in the first half of 2021.

Operating Netback Summary

($/boe)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Petroleum and natural gas sales	**91.90**	68.44	45.97	**80.84**	43.39
Royalties	**(17.11)**	(10.38)	(5.15)	**(13.93)**	(4.81)
Operating	**(14.47)**	(21.02)	(13.96)	**(17.56)**	(13.57)
Transportation	**(3.12)**	(1.57)	(2.45)	**(2.39)**	(2.22)
Operating netback(1)	**57.20**	35.47	24.41	**46.96**	22.79

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

In Q2 2022 and the first half of 2022, operating netback increased compared to the prior periods due to the increase in commodity prices, partially offset by higher royalty rates and higher unit operating costs.

General and Administrative ("G&A") Expenses

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Gross G&A	**1,559**	1,509	552	**3,068**	1,137
Capitalized G&A and overhead recoveries	**(149)**	(263)	(142)	**(412)**	(262)
G&A expenses	**1,410**	1,246	410	**2,656**	875

G&A expenses increased to $1.4 million in Q2 2022 compared to $0.4 million in Q2 2021 and $1.2 million in Q1 2022, and increased to $2.7 million in the first half of 2022 compared to $0.9 million in the first half of 2021. The increase in 2022 is due to additional staff following the Reorganization associated with the Company's new strategy of evaluating and acquiring oil and gas assets in global markets, and increased professional services, specifically regarding the TSX Graduation and the pursuit of international opportunities. The G&A increase in Q2 2022 compared to Q1 2022 is primarily due to TSX listing fees and other services incurred regarding the TSX Graduation.

Transaction Costs

For the three and six months ended June 30, 2022, the Company recognized $1.5 million of transaction costs related to the Transaction in net income (loss) (2021 - $nil).

Business development costs associated with pursuing the Company's new strategy are included in G&A expenses.

Interest and Financing Expenses

In Q2 2022 and the first half of 2022, Tenaz recognized net interest and financing income compared to net interest and financing expenses in the same periods in 2021 due to Tenaz's bank debt being repaid in October 2021. The income relates to interest income offset by standby fees, financing costs and amortized credit facility renewal fees.

Realized loss on derivative instruments

The Company has a risk management program in place with the objectives of reducing the volatility of crude oil and natural gas sales, increasing the certainty of funds flow from operations, protecting development economics, complying with its banking covenant and reducing foreign currency risk. Prior to the Reorganization, Altura had drawn on its credit facility and was therefore required to hedge a minimum percentage of its production for a rolling three-quarter period due to a banking facility covenant. Tenaz's lender has waived the hedging covenant in its credit facility while the Company's credit facility is undrawn. Following the Reorganization in 2021, the Company paid off its bank indebtedness.

The Company's realized losses on derivative instruments are detailed in the following table:

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Commodity contracts					
Crude oil contracts	**(606)**	(817)	(569)	**(1,423)**	(959)
Natural gas contracts	**(247)**	(154)	(43)	**(401)**	(56)
Realized loss on derivative instruments	**(853)**	(971)	(612)	**(1,824)**	(1,015)

Tenaz has recognized realized losses on commodity contracts in 2022 and 2021 due to the increase in commodity prices compared to the prices at the time the contracts were entered into. At June 30, 2022, Tenaz held no crude oil and natural gas contracts as these contracts expired on May 31, 2022.

Net Income (Loss) and Funds Flow from Operations

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

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Funds flow from operations(1)	**2,104**	992	1,125	**3,096**	1,934
Unrealized foreign exchange loss	**(329)**	-	-	**(329)**	-
Unrealized gain (loss) on derivative instruments	**918**	(23)	(595)	**895**	(1,461)
Share-based compensation expense	**(330)**	(312)	(150)	**(642)**	(177)
Depletion, depreciation and amortization	**(1,545)**	(1,349)	(1,129)	**(2,894)**	(2,173)
Impairment reversal (expense)	**-**	4,240	(338)	**4,240**	(338)
Accretion of decommissioning liability	**(49)**	(51)	(49)	**(100)**	(97)
Gain on property dispositions	**-**	-	604	**-**	804
Deferred tax recovery	**-**	-	-	**-**	-
Net income (loss)	**769**	3,497	(532)	**4,266**	(1,508)

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

Share-based compensation

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Total share-based compensation	**344**	337	171	**681**	202
Share-based compensation capitalized	**(14)**	(25)	(21)	**(39)**	(25)
Share-based compensation expense	**330**	312	150	**642**	177

Tenaz's share-based compensation in 2022 is related to the granting of stock options under the Company's Stock Option Plan. The Company estimates the fair value of the incentive award based on a Black Scholes model for the determination of non-cash related share-based compensation, and the expense is recorded over the expected life. Share-based compensation expense increased to $0.3 million in Q2 2022, compared to $0.2 million in Q2 2021 and $0.3 million in Q1 2022, and $0.6 million in the first half of 2022, compared to $0.2 million in the first half of 2021. The increases in 2022 are due to the Reorganization and a new stock option grant in November 2021 to the new management team, directors, and staff.

On May 31, 2022, the Company's shareholders approved a new omnibus security-based compensation arrangement referred to as the Tenaz Incentive Plan (the "**TIP**") pursuant to which the Company is able to issue share-based long-term incentives to directors, officers, employees and independent contractors of the Company and/or its affiliates. The types of awards available under the TIP include options, restricted share units, performance share units, deferred share units 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). At June 30, 2022, no Awards have been granted under the TIP.

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

For Q2 2022 and the first half of 2022, DD&A expense was higher than the same periods of 2021 due to higher production volumes and higher DD&A rates.

On a per unit basis, DD&A increased to $15.20 per boe in Q2 2022, compared to $12.30 per boe in Q2 2021 and to $14.89 per Boe in Q1 20200, and increased to $15.05 per boe in the first half of 2022, compared to $12.31 per Boe in the first half of 2021. The increased per unit depletion in 2022 is mainly due to the impairment reversals recorded in Q1 2022 and Q3 2021 as well as estimated future development cost increases throughout 2021 and 2022, which increased the net asset bases in 2022 subject to depletion relative to the same periods in 2021.

Impairment expense (reversal)

Impairment is recognized when the carrying value of an asset or group of assets exceeds its estimated recoverable amount, defined as the higher of its value in use or fair value less cost to sell. Any asset impairment that is recorded is recoverable to its original value less any associated DD&A expense should there be indicators that the recoverable amount of the asset has increased in value since the time of recording the initial impairment.

Developed and Producing ("**D&P**") Assets

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 indicators of impairment reversal. As a result, a test for impairment reversal was conducted on Tenaz's D&P assets in Tenaz's only cash-generating unit ("**CGU**"), Leduc-Woodbend. The Company recognized an impairment reversal of $4.2 million, net of depletion, in the three months ended March 31, 2022 (2021 - $nil) due to the estimated recoverable amount of $51.1 million, using value in use, exceeding the carrying amount of these assets. Subsequent to the impairment reversal at March 31, 2022, the Company has $nil further impairments that can be reversed in future periods for its CGU.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2021 reserve report prepared by its independent third-party reserve evaluators, updated using forecast oil and gas commodity prices at April 1, 2022, revised forecasted future development costs and operating expenses assumptions and removed production for the first three months of 2022, as updated by the Company's internal reserve evaluator. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on management's estimates as at March 31, 2022 which were established principally on relevant land sales. The discount rates used in the valuation ranged from 12% to 30%, with an overall weighted average discount rate of approximately 20%.

Accretion of decommissioning liability

Accretion expense is the increase in the decommissioning liability resulting from the passage of time. Accretion expense was consistent for the three and six months ended June 30, 2022 and 2021.

Unrealized foreign exchange loss

In Q2 2022, the Company recognized a $0.3 million unrealized foreign exchange loss on £25.0 million held in escrow as the Canadian dollar strengthened against the British pound at quarter end and is off-set by a $0.3 million unrealized gain on foreign currency swaps. In June 2022, Tenaz transferred these funds into escrow to provide the Cash Alternative for the Transaction and entered into foreign currency swaps in order to mitigate the foreign exchange exposure.

Unrealized gain (loss) on derivative instruments

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

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Commodity contracts	**623**	(23)	(595)	**600**	(1,461)
Foreign currency swaps	**295**	-	-	**295**	-
Unrealized gain (loss) on derivative instruments	**918**	(23)	(595)	**895**	(1,461)

The following is a summary of the derivative instruments in place as at June 30, 2022:

Period	Type of Contract	Notional Amount	Notional Amount	Average Rate	Fair Value at June 30, 2022 ($000)
Foreign Currency Swaps					
August 2022	Swap	GBP 25,000,000	CAD 39,525,300	1.5810	295
Derivative instruments asset					**295**

At June 30, 2022, Tenaz had no active commodity contract hedging arrangements with the final contracts expiring at the end of May 2022. At June 30, 2022, the liabilities associated with prior commodity contracts had been realized in normal course. At December 31, 2021, Tenaz had a liability of $0.6 million recorded on the balance sheet.

In June 2022, Tenaz entered into foreign currency swaps in order to mitigate the foreign exchange exposure of the £25.0 million transferred into escrow to provide the Cash Alternative for the Transaction. The $0.3 million unrealized loss in Q2 2022 on the foreign currency swaps are due to the stronger forward Canadian dollar on the Company's swaps.

Deferred Taxes

Tenaz has not recognized a deferred tax asset at June 30, 2022, December 31, 2021 and June 30, 2021 for its estimated tax pools as management did not find it probable that the benefit will be realized. As such, the Company did not recognize a deferred tax expense or recovery in the three and six months ended June 30, 2022 and 2021.

Estimated tax pools at June 30, 2022 and December 31, 2021 are as follows:

($000)	**June 30, 2022**	December 31, 2021
Canadian development expenses	**13,574**	12,832
Canadian exploration expenses	**3,119**	3,088
Canadian oil and gas property expenses	**142**	-
Non-capital losses	**25,627**	24,463
Undepreciated capital cost	**7,739**	8,170
Share issue costs	**1,267**	1,447
	51,468	50,000

At June 30, 2022, Tenaz has non-capital losses of $25.6 million that expire between 2025 and 2042.

Capital Expenditures

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Geological and geophysical	**30**	2	3	**32**	4
Land	**157**	45	56	**202**	140
Drilling and completions	**3,319**	93	117	**3,412**	917
Workovers and recompletions	**-**	37	177	**37**	503
Equipping and tie-in	**11**	310	3	**321**	173
Facilities and pipelines	**3**	164	(1)	**167**	75
Other	**(8)**	68	72	**60**	125
Capital expenditures(1)	**3,512**	719	427	**4,231**	1,937
Property dispositions	**-**	-	(1,312)	**-**	(1,750)
Capital expenditures (proceeds), net of dispositions(1)	**3,512**	719	(885)	**4,231**	187

(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 expenditures, net of dispositions was allocated as follows:

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Exploration and evaluation	**-**	-	18	**-**	80
Property and equipment	**3,512**	719	(903)	**4,231**	107
Capital expenditures (proceeds), net of dispositions(1)	**3,512**	719	(885)	**4,231**	187

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

In Q2 2022, Tenaz invested $3.5 million in capital expenditures which primarily related to the drilling of two (1.75 net) horizontal wells at Leduc-Woodbend spud in June 2022. In the first half of 2022, Tenaz invested $4.2 million in capital expenditures which included the two wells drilled in Q2 2022 and the equipping and tie-in of two (1.75 net) horizontal wells at Leduc-Woodbend drilled in December 2021.

In Q2 2021, the Company invested $0.4 million in capital expenditures which included the lease construction costs related to a July 2021 drill and workover costs related to four rod upgrades at Leduc-Woodbend to improve run-time efficiency. In the first half of 2021, Tenaz invested $1.9 million which included the completion and equipping of a horizontal oil well that was drilled in the first quarter of 2020. Workover costs in the first half of 2021 relate to seven rod upgrades at Leduc-Woodbend.

In Q2 2021 and the first half of 2021, Tenaz closed asset dispositions for cash proceeds of $1.3 million and $1.75 million, respectively, selling off a minor working interest in the Company's production, wells, lands and facilities through staged dispositions.

Decommissioning Liability

At June 30, 2022, Tenaz's decommissioning liability was $1.5 million (December 31, 2021 - $2.6 million) for the future abandonment and reclamation of Tenaz's properties. The estimated decommissioning liability includes cost assumptions to abandon wells or reclaim the property, 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 future liability has been inflated at 1.8% (December 31, 2021 – 1.7%) and discounted at a credit-adjusted risk-free rate of 14.5% (December 31, 2021 – 8.4%).

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

The Company's Liability Management Rating ("**LMR**") with the Alberta Energy Regulator ("**AER**") was 6.42 at July 2, 2022. The LMR is the ratio of the Company's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Company to pay a deposit to the AER. Additionally, Tenaz's revolving Credit Facilities includes a covenant requiring the Company to maintain a LMR in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0. At June 30, 2022, Tenaz was in compliance with this covenant.

CAPITAL RESOURCES AND LIQUIDITY

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

($000)	**June 30, 2022**	December 31, 2021
Current assets	**43,126**	27,499
Current liabilities	**(23,400)**	(7,411)
Working capital surplus	**19,726**	20,088
Exclude fair value of derivative instruments	**(295)**	600
Adjusted working capital(1)	**19,431**	20,688

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

The Company's policy is to maintain a strong capital base to enhance investor, creditor and market confidence and to sustain the future development of the business. Tenaz's adjusted working capital of $19.4 million as at June 30, 2022 decreased from $20.7 million at December 31, 2021 primarily due to transaction costs incurred in the period. The transaction costs related to the proposed merger with SDX which was terminated subsequent to the second quarter.

At June 30, 2022, adjusted working capital includes the £25.0 million escrow ($39.2 million) held as restricted cash pursuant to the Transaction which was transferred back into Tenaz's bank account on August 4, 2022 following the termination of the SDX Energy Plc acquisition.

Credit Facilities

In June 2022, in connection with the financing of the cash consideration payable under the terms of the Cash Alternative for the Transaction, Tenaz entered into an amended and restated commitment letter with ATB Financial (the "**Lender**") making available two facilities to provide total available liquidity of up to $20.15 million to facilitate cash consideration in relation to the Cash Alternative (the "**Credit Facilities**"). The Credit Facilities consist of two separate facilities, structured as follows: (a) a revolving operating demand loan (the "**Operating Loan**") in the principal amount of up to $10.15 million (December 31, 2021 - $4.0 million) accruing interest at a rate of prime + 3.5% per annum and subject to redetermination at least annually with the next redetermination date expected December 31, 2022; and (b) a non-revolving facility (the "**Non-Revolving Loan**") in the principal amount of up to $10 million accruing interest at a rate of prime + 5.5% per annum until September 30, 2022 and prime + 7.5% per annum thereafter, repayable on or before December 31, 2022.

As at June 30, 2022, the Operating Loan outstanding balance was $5.9 million (December 31, 2021 - $nil) and the unused portion of the Operating Loan was $4.05 million as the Company had outstanding letters of credit for $0.15 million (December 31, 2021 - $0.15 million).

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

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

As at June 30, 2022, the full $10.0 million was drawn on the Non-Revolving Loan.

The Non-Revolving Loan is payable on demand and to be used exclusively to fund the Cash Alternative. The Non-Revolving Loan may be prepaid in whole or in part at any time without penalty.

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

Tenaz is subject to certain reporting and financial covenants including:

- the Company is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facilities drawn and the fair value of any risk management contracts are excluded and the unused portion of the Credit Facilities is added to current assets;
- the Company will, within 2 business days of closing the acquisition of SDX Energy Plc, maintain hedging agreements covering no less than 60% of forecasted production for no less than the period ending December 31, 2022; and
- the Company will maintain a liability management rating ("**LMR**") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at June 30, 2022, Company was in compliance with all debt covenants. The working capital ratio as defined was 6.31:1 (December 31, 2021 – 4.60:1) and the Company was compliant with the LMR covenant (6.42 at July 2, 2022).

The next Credit Facilities review date is scheduled to be held on or before December 31, 2022.

On August 4, 2022, following the termination of the Transaction, the £25.0 million held in escrow was transferred back into Tenaz's bank account, the outstanding balances on the Credit Facilities were settled and the foreign exchange swaps were settled.

Shareholders' Equity

At June 30, 2022 and August 5, 2022 there were 28,548,074 Common Shares, 1,893,000 stock options and 2,778,000 warrants outstanding. A summary of the Company's change in Common Shares from December 31, 2021 to June 30, 2022 is presented below:

	Number of Common Shares
Balance, December 31, 2021	28,438,074
Exercise of stock options	110,000
Balance, June 30, 2022	**28,548,074**

Capital Resources

Tenaz has adequate liquidity to fund its planned 2022 capital expenditure budget through a combination of cash flow from operating activities, and the unused portion of the Operating Loan.

SUMMARY OF QUARTERLY INFORMATION

Quarters Ended	**Q2 2022**	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
($000, except per share)								
Petroleum and natural gas sales	**9,344**	6,201	5,453	4,717	4,220	3,440	2,659	2,526
Cash flow from operating activities	**1,936**	1,158	373	1,982	763	827	206	505
Net income (loss)	**769**	3,497	(258)	10,105	(532)	(976)	10,730	(420)
Per share – basic	**0.03**	0.12	(0.01)	0.93	(0.05)	(0.09)	0.99	(0.04)
Per share – diluted(1)	**0.03**	0.12	(0.01)	0.93	(0.05)	(0.09)	0.99	(0.04)
Shareholders' equity(2)	**70,493**	69,191	65,315	35,950	25,264	25,625	26,570	15,788

(1) Basic weighted average shares are used to calculate diluted per share amounts when the Company is in a loss position.
(2) Prior period amounts have been restated. Refer to the "Change in Accounting Policies" section in the MD&A.

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.

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

The Company has not entered into any related party transactions.

SUBSEQUENT EVENTS

Termination of SDX Energy Plc acquisition

The completion of the Transaction required Tenaz and SDX shareholder and regulatory approvals. The results of the SDX shareholder vote held on July 29, 2022, as represented by SDX, did not meet the required threshold of 75% of voted shares in favour of the Scheme. Based on the results of the SDX vote, Tenaz decided not to hold its Special Meeting of Shareholders on July 29, 2022 and terminated the proposed acquisition of SDX. On August 4, 2022, the £25.0 million held in escrow was transferred back into Tenaz's bank account, the outstanding balances on the Credit Facilities were repaid, and the foreign exchange swaps were settled.

Normal Course Issuer Bid

On May 30, 2022, the Board of Directors approved management to pursue approval from the TSX to institute a normal course issuer bid which will be established for the ability to repurchase, for cancellation, up to 10% of the issued and outstanding common shares of the company (the "**NCIB**").

On August 5, 2022, the Company received TSX approval to purchase the maximum allowable number of Common Shares over the next twelve-month period (up to 2,619,970 Common Shares representing approximately 9.2% of the outstanding Shares and 10% of the public float of Common Shares). The actual number of Common Shares ultimately purchased will be a function of several factors including, but not limited to, the market price of the Common Shares, the maximum daily allowable repurchase volume under TSX rules, the commodity price outlook, and other factors deemed relevant by the Board of Directors of Tenaz. Purchases made pursuant to the NCIB will be made in the open market through the facilities of the TSX or through alternative Canadian trading systems. Common Shares purchased pursuant to the NCIB will be cancelled. The number of Common Shares that can be purchased is subject to a daily maximum of 6,108 Common Shares, subject to certain prescribed exceptions, which is 25% of the average daily trading volume for the Common Shares on the TSX being 24,435 Common Shares for the period from the TSX Graduation on May 12, 2022 to July 31, 2022.

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

The Company expects to commence Common Share purchases on or after August 12, 2022.

ACCOUNTING STANDARDS, CHANGE IN ACCOUNTING POLICIES AND PRONOUNCEMENTS

Tenaz's interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards as issued by the IASB. These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021. There were no new or amended accounting standards or interpretations issued during the three and six months ended June 30, 2022 that are expected to have a material impact on the interim condensed consolidated financial statements.

A summary of significant accounting policies can be found in note 3 to the annual consolidated financial statements for the for the year ended December 31, 2021.

Change in Accounting Policy – Decommissioning Liability

As described in Notes 1 and 18 of the audited consolidated financial statements for the year ended December 31, 2021 and as described in Notes 2 and 15 of the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2022, effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to decommissioning liability to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The Company had previously utilized a risk-free discount rate to determine the discounted amount of the liability. Tenaz believes that discounting asset retirement obligations based on a credit-adjusted risk-free discount rate more closely approximates the value at which such liabilities could be transferred to a third party, increases the comparability of its financial statements to certain peer companies, provides a better indication of the risk associated with such obligations and results in reliable and more relevant information for the readers of the Company's financial statements.

The change in accounting policy did not have an impact on the Company's operations, cash flows, capital expenditures or strategic objectives and was applied retrospectively, resulting in the restatement of previously reported amounts as follows:

Consolidated Balance Sheets

As at	June 30, 2021			December 31, 2020		
($000)	Previous accounting policy	Effect of change	Restated	Previous accounting policy	Effect of change	Restated
E&E Assets	-	-	-	260	-	260
Property and equipment	31,369	707	32,076	32,872	-	32,872
Decommissioning liability	5,429	(2,764)	2,665	5,802	(3,672)	2,130
Retained earnings (deficit)	(23,369)	3,470	(19,899)	(22,063)	3,672	(18,391)

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

	For the year ended December 31 2021	For the three months ended June 30, 2021			For the six months ended June 30, 2021		
($000)	Effect of change	Previous accounting policy	Effect of change	Restated	Previous accounting policy	Effect of change	Restated
Depletion, depreciation and amortization	31	1,113	16	1,129	2,143	30	2,173
Impairment	487	330	8	338	330	8	338
Accretion of decommissioning liability	96	25	24	49	51	46	97
(Gain) loss on property dispositions	118	(690)	86	(604)	(922)	118	(804)
Net income (loss) and comprehensive income (loss)	(732)	(398)	(134)	(532)	(1,306)	(202)	(1,508)
Net income (loss) per share ($/share) (Note 10)							
Basic	(0.05)	(0.04)	(0.01)	(0.05)	(0.12)	(0.02)	(0.14)
Diluted	(0.05)	(0.04)	(0.01)	(0.05)	(0.12)	(0.02)	(0.14)

Consolidated Statements of Cash Flows

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements 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 accounting estimates, judgments and assumptions can be found in Note 2 to the annual consolidated financial statements for the year ended December 31, 2021. There have been no significant changes to the use of estimates, judgements or assumptions since December 31, 2021.

RISK FACTORS & 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 to 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.sedar.com, for additional information.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer are responsible for the establishment and maintenance of internal controls over financial reporting ("**ICFR**") including disclosure controls and procedures ("**DC&P**").

During the second quarter of 2022, the Company became listed on the TSX, having previously been listed on the TSX Venture exchange.

ADVISORIES

Non-GAAP and Other Financial Measures

This MD&A and first quarter report contains the terms funds flow from operations, capital expenditures, and capital expenditures, net of dispositions 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 term 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.

a) Non-GAAP Financial Measures

Funds flow from operations

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

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Cash flow from operating activities	1,936	1,158	763	3,094	1,590
Change in non-cash working capital	168	(166)	362	2	344
Funds flow from operations	2,104	992	1,125	3,096	1,934

Capital Expenditures and Capital Expenditures, Net of Dispositions

Management uses the terms "capital expenditures" and "capital expenditures, net of dispositions" as measures of capital investment in exploration and production activity, as well as property acquisitions and dispositions, and such spending is compared to the Company's annual budgeted capital expenditures. The most directly comparable GAAP measure for capital expenditures and capital expenditures, net of dispositions is cash flow used in investing activities.

A summary of the reconciliation of cash flow used in investing activities to capital expenditures and capital expenditures, net of dispositions, is set forth below:

($000)	**Q2 2022**	Q1 2022	Q2 2021	**YTD 2022**	YTD 2021
Cash flow used in (from) investing activities	**39,862**	4,853	(520)	**44,715**	151
Adjusted for:					
Restricted cash towards offer	**(39,499)**	-	-	**(39,499)**	-
Change in non-cash working capital	**3,149**	(4,134)	(365)	**(985)**	36
Capital expenditures, net of dispositions	**3,512**	719	(885)	**4,231**	187
Property dispositions	**-**	-	1,312	**-**	1,750
Capital expenditures	**3,512**	719	427	**4,231**	1,937

b) Non-GAAP Financial Ratio

Operating Netback

Tenaz calculates operating netback on a per boe basis, as petroleum and natural gas sales less royalties, operating costs and transportation costs. 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.

c) 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.

d) Supplementary Financial Measures

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

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

"**Funds flow from operations per diluted share**" is comprised of funds 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 NGLs commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGLs 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", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "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 Transaction and expected transaction costs, the TIP and Awards thereunder, the NCIB and expected share buybacks thereunder, Tenaz's capital plans, activities and budget for 2022, expected well performance, forecasted average production volumes and capital expenditures for 2022, 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 completion of transactions as proposed, 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; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Tenaz's reserves and resource volumes; certain commodity price and other cost assumptions; the continued availability of oilfield services; and the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures.

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

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

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

As at

($000)	Note	**June 30 2022**	December 31 2021
ASSETS			
Current assets			
Cash and cash equivalents		**-**	25,470
Restricted cash	3	**39,170**	-
Accounts receivable	12	**3,363**	1,777
Prepaid expenses and deposits		**298**	252
Derivative instruments	12	**295**	-
		43,126	27,499
Property and equipment	6	**52,316**	47,902
Total assets		**95,442**	75,401
LIABILITIES			
Current liabilities			
Bank debt	7	**15,946**	-
Accounts payable and accrued liabilities		**7,395**	6,750
Current portion of lease liabilities	8	**59**	61
Derivative instruments	12	**-**	600
		23,400	7,411
Lease liabilities	8	**82**	106
Decommissioning liability	9	**1,467**	2,569
Total liabilities		**24,949**	10,086
SHAREHOLDERS' EQUITY			
Share capital	10	**64,866**	64,503
Warrants	10	**3,203**	3,203
Contributed surplus		**8,210**	7,661
Deficit		**(5,786)**	(10,052)
Total shareholders' equity		**70,493**	65,315
Total liabilities and shareholders' equity		**95,442**	75,401
Subsequent events	4,16		

See accompanying notes to the interim condensed consolidated financial statements.

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

($000, except per share amounts)	Note	**Three months ended June 30** **2022**	**Three months ended June 30** 2021 Restated (Note 15)	**Six months ended June 30** **2022**	**Six months ended June 30** 2021 Restated (Note 15)
REVENUE					
Petroleum and natural gas sales	11	**9,344**	4,220	**15,545**	7,660
Royalties		**(1,740)**	(473)	**(2,680)**	(850)
Petroleum and natural gas revenue		**7,604**	3,747	**12,865**	6,810
EXPENSES					
Operating		**1,471**	1,280	**3,376**	2,396
Transportation		**318**	225	**460**	391
General and administrative		**1,410**	410	**2,656**	875
Transaction costs	4	**1,457**	-	**1,457**	-
Interest and financing income (charges)		**(9)**	95	**(4)**	199
Foreign exchange loss		**329**	-	**329**	-
(Gain) loss on derivative instruments	12	**(65)**	1,207	**929**	2,476
Share-based compensation	10	**330**	150	**642**	177
Depletion, depreciation and amortization	6	**1,545**	1,129	**2,894**	2,173
Impairment expense (reversal)	5,6	**-**	338	**(4,240)**	338
Accretion of decommissioning liability	9	**49**	49	**100**	97
Gain on property dispositions		**-**	(604)	**-**	(804)
		6,835	4,279	**8,599**	8,318
Income (loss) before taxes		**769**	(532)	**4,266**	(1,508)
Deferred tax recovery		**-**	-	**-**	-
Net income (loss) and comprehensive income (loss)		**769**	(532)	**4,266**	(1,508)
Net income (loss) per share	10				
Basic		**0.03**	(0.05)	**0.15**	(0.14)
Diluted		**0.03**	(0.05)	**0.15**	(0.14)

See accompanying notes to the interim condensed consolidated financial statements.

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

For the periods ended June 30

($000)	Note	Share capital	Warrants	Contributed surplus	Deficit	Total Equity
Balance, January 1, 2021 (Restated)	15	37,712	-	7,249	(18,391)	26,570
Share-based compensation expense	10	-	-	177	-	177
Share-based compensation capitalized	10	-	-	25	-	25
Net loss for the period (Restated)	15	-	-	-	(1,508)	(1,508)
Balance, June 30, 2021		**37,712**	**-**	**7,451**	**(19,899)**	**25,264**
Balance, December 31, 2021		64,503	3,203	7,661	(10,052)	65,315
Exercise of stock options	10	363	-	(132)	-	231
Share-based compensation expense	10	-	-	642	-	642
Share-based compensation capitalized	10	-	-	39	-	39
Net income for the period		-	-	-	4,266	4,266
Balance, June 30, 2022		**64,866**	**3,203**	**8,210**	**(5,786)**	**70,493**

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

($000)	Note	Three months ended June 30 **2022**	2021	Six months ended June 30 **2022**	2021
CASH FLOW FROM OPERATING ACTIVITIES					
Net income (loss) for the period		**769**	(532)	**4,266**	(1,508)
Items not involving cash:					
Share-based compensation	10	**330**	150	**642**	177
Depletion, depreciation and amortization	6	**1,545**	1,129	**2,894**	2,173
Impairment expense (reversal)	5,6	**-**	338	**(4,240)**	338
Accretion of decommissioning liability	9	**49**	49	**100**	97
Unrealized foreign exchange loss	12	**329**	-	**329**	-
Unrealized (gain) loss on derivative instruments	12	**(918)**	595	**(895)**	1,461
Gain on property dispositions		**-**	(604)	**-**	(804)
Change in non-cash working capital	14	**(168)**	(362)	**(2)**	(344)
Cash flow from operating activities		**1,936**	763	**3,094**	1,590
CASH FLOW (USED IN) FROM INVESTING ACTIVITIES					
Exploration and evaluation asset expenditures		**-**	(18)	**-**	(80)
Property and equipment expenditures	6	**(3,512)**	(409)	**(4,231)**	(1,857)
Restricted cash	3	**(39,499)**	-	**(39,499)**	-
Property dispositions		**-**	1,312	**-**	1,750
Change in non-cash working capital	14	**3,149**	(365)	**(985)**	36
Cash flow (used in) from investing activities		**(39,862)**	520	**(44,715)**	(151)
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES					
Change in bank debt		**15,946**	(838)	**15,946**	(985)
Proceeds from the exercise of stock options	10	**189**	-	**231**	-
Principal payments on lease liabilities	8	**(13)**	(9)	**(26)**	(18)
Cash flow from (used in) financing activities		**16,122**	(847)	**16,151**	(1,003)
CHANGE IN CASH AND CASH EQUIVALENTS		**(21,804)**	436	**(25,470)**	436
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**21,804**	-	**25,470**	-
CASH AND CASH EQUIVALENTS, END OF PERIOD		**-**	436	**-**	436
Cash interest paid		**9**	95	**14**	199

See accompanying notes to the interim condensed consolidated financial statements.

1. REPORTING ENTITY

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

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

Reorganization

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

These Financial Statements were approved by the Board of Directors on August 5, 2022.

(b) Basis of Measurement and Principles of Consolidation

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

(c) Functional and Presentation Currency

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

(d) Voluntary Change in Accounting Policy

Effective December 31, 2021, Tenaz voluntarily changed its accounting policy with respect to its decommissioning liability to utilize a credit-adjusted risk-free discount rate to determine the discounted amount of the liability presented at each balance sheet date. The Company had previously utilized a risk-free discount rate to determine the discounted amount of the liability. Tenaz believes that discounting asset retirement obligations based on a credit-adjusted risk-free discount rate more closely approximates the value at which such liabilities could be transferred to a third party, increases the comparability of its financial statements to certain peer companies, provides a better indication of the risk associated with such obligations and results in reliable and more relevant information for the readers of the Company’s financial statements. The change in accounting policy was applied retrospectively, including the restatement of comparative amounts in the audited consolidated statements for the year ended December 31, 2021. The impact of the change in accounting policy on these Financial Statements is described in Note 15.

(e) Use of Estimates, Judgements and Assumptions

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

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

3. RESTRICTED CASH

Restricted cash consists of cash held in an escrow account under the terms of an escrow arrangement relating to the offer by Tenaz to acquire all the issued and to be issued share capital of SDX Energy Plc (Note 4) and is considered not available for general use by the Company. At June 30, 2022, the Company held £25.0 million ($39.2 million translated at the period end rate) as restricted cash (December 31, 2021 - $nil).

On August 4, 2022, following the termination of the SDX Energy Plc acquisition (Note 4), the £25.0 million held in escrow was transferred back into Tenaz’s bank account, the outstanding balances on the Credit Facilities were settled and the foreign exchange swaps were settled.

4. ACQUISITION

Offer to acquire SDX Energy Plc and termination of acquisition

On May 25, 2022, it was announced that the boards of directors of Tenaz and SDX Energy Plc (“**SDX**”), a UK-listed, MENA-focused, international oil and gas production, development and exploration company headquartered in London, had reached agreement on the terms of a recommended share-for-share combination between Tenaz and SDX (the “**Transaction**”). The Transaction was to be implemented by means of a United Kingdom court-sanctioned Scheme of Arrangement (the “**Scheme**”) with the entire issued and to be issued ordinary share capital of SDX being acquired by Tenaz.

On June 30, 2022, the Company announced the addition of a cash alternative (the “**Cash Alternative**”) to the Transaction. Under the terms of the Cash Alternative, SDX shareholders were to retain the right to receive Tenaz Common Shares for each SDX share (“**SDX Share**”), but also provided with an option to receive cash consideration for each SDX Share in lieu of receiving Tenaz Common Shares.

In order to provide the Cash Alternative, Tenaz used its existing cash balance, supplemented by a reserve-based credit facility from its Canadian lender (Note 7) and transferred £25.0 million ($39.5 million) into escrow (Note 3) in June 2022. In addition, Tenaz also entered into foreign currency swaps in June 2022 to mitigate the escrow’s foreign currency risk (Note 12).

The completion of the Transaction required Tenaz and SDX shareholder and regulatory approvals. The results of the SDX shareholder vote held on July 29, 2022, as represented by SDX, did not meet the required threshold of 75% of voted shares in favour of the Scheme. Based on the results of the SDX vote, Tenaz decided not to hold its Special Meeting of Shareholders on July 29, 2022 and terminated the proposed acquisition of SDX. On August 4, 2022, the £25.0 million held in escrow was transferred back into Tenaz’s bank account, the outstanding balances on the Credit Facilities were settled and the foreign exchange swaps were settled.

For the three and six months ended June 30, 2022, the Company recognized $1.5 million of transaction costs related to the Transaction in net income (loss).

5. EXPLORATION AND EVALUATION

The following table reconciles Tenaz's Exploration and Evaluation (“**E&E**”) assets:

($000)	Total
Balance, December 31, 2020	260
Additions	80
Change in decommissioning costs (Note 9)	6
Dispositions	(8)
Impairment	(338)
Balance, December 31, 2021 and June 30, 2022	**-**

E&E assets consist of the Company's projects that have yet to be established as technically feasible and commercially viable. Additions represented Tenaz’s share of costs incurred on E&E assets at its Entice area during the periods. No costs were attributable to E&E activities in the three and six months ended June 30, 2022 and 2021.

6. PROPERTY AND EQUIPMENT

The following table reconciles Tenaz's property and equipment:

($000)	Developed and Producing Assets	Administrative Assets	Total
Cost			
Balance, December 31, 2020	65,373	203	65,576
Additions	10,273	38	10,311
Share-based compensation	62	-	62
Dispositions	(2,044)	-	(2,044)
Change in decommissioning costs (Note 9)	302	-	302
Balance, December 31, 2021	73,966	241	74,207
Additions	4,223	8	4,231
Share-based compensation (Note 10)	39	-	39
Change in decommissioning costs (Note 9)	(1,202)	-	(1,202)
Balance, June 30, 2022	**77,026**	**249**	**77,275**
Depletion, depreciation and impairment ($000)			
Balance, December 31, 2020	(32,596)	(108)	(32,704)
Depletion, depreciation and amortization	(4,631)	(29)	(4,660)
Dispositions	1,038	-	1,038
Impairment reversal	10,021	-	10,021
Balance, December 31, 2021	(26,168)	(137)	(26,305)
Depletion, depreciation and amortization	(2,880)	(14)	(2,894)
Impairment reversal	4,240	-	4,240
Balance, June 30, 2022	**(24,808)**	**(151)**	**(24,959)**
Carrying amounts ($000)			
As at December 31, 2021	47,798	104	47,902
As at June 30, 2022	**52,218**	**98**	**52,316**

Estimated future development costs of $121.4 million (December 31, 2021 – $102.6 million) associated with the development of the Company's proved and probable oil and gas reserves were added to the Company's net book value in the depletion and depreciation calculation. In the six months ended June 30, 2022, Tenaz capitalized cash and administrative costs directly attributable to property and equipment of $0.1 million and included in the additions above (2021 – $0.1 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 indicators of impairment reversal. As a result, a test for impairment reversal was conducted on Tenaz's developed and producing ("**D&P**") assets in Tenaz's only cash-generating unit ("**CGU**"), Leduc-Woodbend. The Company recognized an impairment reversal of $4.2 million, net of depletion, in the three months ended March 31, 2022 (2021 - $nil) due to the estimated recoverable amount of $51.1 million, using value in use, exceeding the carrying amount of these assets. Subsequent to the impairment reversal at March 31, 2022, the Company has $nil further impairments that can be reversed in future periods for its CGU.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and gas reserves and related cash flows from Tenaz's December 31, 2021 reserve report prepared by its independent third-party reserve evaluators, updated using forecast oil and gas commodity prices at April 1, 2022, revised forecasted future development costs and operating expenses assumptions and removed production for the first three months of 2022, as updated by the Company's internal reserve evaluator. The estimated recoverable amount was determined to be value in use and was based on before-tax discount rates specific to the underlying composition of reserve categories and risk profile residing in the Leduc-Woodbend CGU, net of decommissioning obligations and included recoverable value for certain undeveloped land included in property and equipment related to this CGU based on management's estimates as at March 31, 2022 which were established principally on relevant land sales. The discount rates used in the valuation ranged from 12% to 30%, with an overall weighted average discount rate of approximately 20%.

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

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

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

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

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

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

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

7. BANK DEBT

Bank debt is comprised of the following:

($000)	**June 30 2022**	December 31 2021
Credit Facilities		
Operating Loan	**5,946**	-
Non-Revolving Loan	**10,000**	-
Total bank debt	**15,946**	-

In June 2022, in connection with the financing of the cash consideration payable under the terms of the Cash Alternative (Note 4), Tenaz entered into amended and restated commitment letter with a Canadian bank (the "**Lender**") making available two facilities to provide total available liquidity of up to $20.15 million to facilitate cash consideration in relation to the Cash Alternative (the "**Credit Facilities**"). The Credit Facilities consist of two separate facilities, structured as follows: (a) a revolving operating demand loan (the "**Operating Loan**") in the principal amount of up to $10.15 million (December 31, 2021 - $4.0 million) accruing interest at a rate of prime + 3.5% per annum and subject to redetermination at least annually with the next redetermination date expected December 31, 2022; and (b) a non-revolving facility (the "**Non-Revolving Loan**") in the principal amount of up to $10 million accruing interest at a rate of prime + 5.5% per annum until September 30, 2022 and prime + 7.5% per annum thereafter, repayable on or before December 31, 2022.

As at June 30, 2022, the Operating Loan outstanding balance was $5.9 million (December 31, 2021 - $nil) and the unused portion of the Operating Loan was $4.05 million as the Company had outstanding letters of credit for $0.15 million (December 31, 2021 - $0.15 million).

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

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

As at June 30, 2022, the full $10.0 million was drawn on the Non-Revolving Loan.

The Non-Revolving Loan is payable on demand and to be used exclusively to fund the Cash Alternative. The Non-Revolving Loan may be prepaid in whole or in part at any time without penalty.

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

Tenaz is subject to certain reporting and financial covenants including:

- the Company is required to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, the Credit Facilities drawn and the fair value of any risk management contracts are excluded and the unused portion of the Credit Facilities is added to current assets;
- the Company will, within 2 business days of closing the acquisition of SDX Energy Plc, maintain hedging agreements covering no less than 60% of forecasted production for no less than the period ending December 31, 2022; and
- the Company will maintain a liability management rating ("**LMR**") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0.

As at June 30, 2022, Company was in compliance with all debt covenants. The working capital ratio as defined was 6.31:1 (December 31, 2021 – 4.60:1) and the Company was compliant with the LMR covenant (6.42 at July 2, 2022).

The next Credit Facilities review date is scheduled to be held on or before December 31, 2022.

On August 4, 2022, following the termination of the Transaction (Note 4), the £25.0 million held in escrow was transferred back into Tenaz's bank account, the outstanding balances on the Credit Facilities were settled and the foreign exchange swaps were settled.

8. LEASE LIABILITIES

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

($000)	**Total**
Balance, December 31, 2020	206
Lease interest	11
Total cash outflow	(50)
Balance, December 31, 2021	167
Lease interest	4
Total cash outflow	(30)
Balance, June 30, 2022	**141**
Current lease liabilities	59
Non-current lease liabilities	82

Tenaz has the following future commitments:

($000)	As at June 30, 2022
Total lease liabilities per above	**141**
Impact of discounting	10
Total lease payments	**151**
Lease payments due within one year	66
Lease payments due between one and three years	85

9. DECOMMISSIONING LIABILITY

The Company's decommissioning liability results from its net ownership interests in petroleum and natural gas properties and equipment including well sites and facilities. Tenaz estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations as at June 30, 2022 to be approximately $5.6 million (December 31, 2021 – $5.6 million) with the majority of costs anticipated to be incurred between 2030 and 2040. A credit-adjusted risk-free rate of 14.5% (December 31, 2021 – 8.4%) and an inflation rate of 1.8% (December 31, 2021 – 1.7%) were used to calculate the fair value of the decommissioning liability.

A reconciliation of the decommissioning liability is provided below:

($000)	Six months ended June 30, 2022	Year ended December 31, 2021
Balance, beginning of period(1)	**2,569**	2,130
Additions	**5**	51
Liabilities disposed	**-**	(68)
Change in estimates(2)	**(1,207)**	257
Accretion	**100**	199
Balance, end of period	**1,467**	2,569
Current - Expected to be incurred within one year	**-**	-
Non-current - Expected to be incurred beyond one year	**1,467**	2,569

(1) The balance at December 31, 2020 was restated. Refer to Note 15.

(2) At June 30, 2022, the change in estimates is due to a $1.2 million decrease in decommissioning liability resulting from the change in the discount and inflation rates (December 31, 2021 - $0.3 million increase resulting from the change in the discount and inflation rates offset by a decrease in abandonment and remediation cost estimates and future abandonment dates totaling $0.06 million).

10. SHARE CAPITAL

(a) Authorized:

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

(b) Issued and outstanding:

	Number of Common Shares	Amount ($000)
Balance, December 31, 2020	10,892,097	37,712
Issuance of Common Shares on recapitalization	13,611,200	24,500
Issuance of units on recapitalization	2,777,800	5,000
Allocation to warrants	-	(3,203)
Issuance of Common Shares on rights offering	1,017,984	1,832
Exercise of stock options	139,000	470
Fractional rounding on share consolidation	(7)	-
Share issue costs	-	(1,808)
Balance, December 31, 2021	28,438,074	64,503
Exercise of stock options	110,000	363
Balance, June 30, 2022	**28,548,074**	**64,866**

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

(i) Exercise of Stock Options

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

(c) Warrants:

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

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

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

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

(d) Incentive Plans:

Stock Option Plan

The Company has a Stock Option Plan for directors, employees and service providers. Under the plan, stock options were granted to purchase Common Shares of Tenaz and the maximum term of stock options granted is five years. The Board of Directors determined the vesting schedule at the time of grant. Unless otherwise determined by the Board of Directors at the time of grant, stock options vest as to one-third on each of the first, second and third anniversary dates of the date of grant.

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

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

	Number of Stock Options	Weighted Average Exercise Price ($)
Balance, December 31, 2020	608,500	3.58
Granted	2,150,000	2.57
Exercised	(139,000)	2.14
Expired	(35,000)	2.90
Forfeited	(442,000)	3.87
Repurchased and canceled	(112,000)	2.70
Balance, December 31, 2021	2,030,500	2.60
Exercised	(110,000)	2.10
Forfeited	(27,500)	2.70
Balance, June 30, 2022	**1,893,000**	**2.63**

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

Exercise Prices	Awards Outstanding			Awards Exercisable		
	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price ($)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price ($)
$2.10	240,000	0.3	2.10	240,000	0.3	2.10
$2.70	1,642,500	4.4	2.70	-	-	-
$3.75 - $4.15	10,500	1.0	3.95	10,500	1.0	3.95
	1,893,000	**3.9**	**2.63**	**250,500**	**0.3**	**2.18**

Tenaz Incentive Plan

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

The types of awards available under the TIP include options, restricted share units, performance share units, deferred share units 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).

As of June, 2022, there were 1,893,000 Options outstanding and unexercised under the Stock Option Plan and 961,807 Common Shares available for issuance under the TIP. The TIP is administered by the Board or a committee of the Board.

At June 30, 2022, no Awards have been granted under the TIP.

(e) Share-based Compensation

The Company's share-based compensation relating to stock options, fair valued on the date of grant using a Black Scholes model, was as follows:

	Three months ended June 30		**Six months ended June 30**	
($000)	**2022**	2021	**2022**	2021
Share-based compensation expense	**330**	150	**642**	177
Share-based compensation capitalized (Note 6)	**14**	21	**39**	25
Total share-based compensation	**344**	171	**681**	202

(f) Weighted average Common Shares:

	Three months ended June 30		**Six months ended June 30**	
($000, except Common Shares and per share amounts)	**2022**	2021 Restated (Note 15)	**2022**	2021 Restated (Note 15)
Net income (loss) – Basic and diluted	**769**	(532)	**4,266**	(1,508)
Weighted average Common Shares				
Basic	**28,480,821**	10,892,097	**28,469,179**	10,892,097
Diluted	**29,241,047**	10,892,097	**28,913,764**	10,892,097
Net income (loss) per share				
Basic	**0.03**	(0.05)	**0.15**	(0.14)
Diluted	**0.03**	(0.05)	**0.15**	(0.14)

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

For the three and six months ended June 30, 2022, 1,653,000 stock options were excluded from the weighted average number of Common Shares as they were anti-dilutive (2021 – 1,031,833 stock options).

11. REVENUE

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

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

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

	Three months ended June 30		Six months ended June 30	
($000)	**2022**	2021	**2022**	2021
Heavy crude oil	**6,953**	3,203	**11,634**	5,746
Natural gas liquids	**527**	232	**853**	429
Natural gas	**1,864**	785	**3,058**	1,485
Petroleum and natural gas sales	**9,344**	4,220	**15,545**	7,660

As at June 30, 2022, receivables for revenue were $3.2 million, which are included in accounts receivable (December 31, 2021 - $1.6 million).

12. FINANCIAL INSTRUMENTS AND DERIVATIVES

Risks associated with financial assets and liabilities

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

Credit Risk

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

The majority of the credit exposure on accounts receivable at June 30, 2022, pertain to revenue for accrued June 2022 production volumes and receivables from joint interest partners. Tenaz primarily transacts with four oil and natural gas marketing companies. The marketing companies typically remit amounts to Tenaz by the 25th day of the month following production. At June 30, 2022, 89 percent of total outstanding accounts receivable pertains to four marketing companies. Tenaz did not have any other customers from which it had outstanding accounts receivable greater than 10 percent of the total outstanding balance at June 30, 2022. For the six months ended June 30, 2022, the Company received approximately 92 percent of its revenue from four marketing companies (2021 – 91 percent of its revenue from four marketing companies).

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

As at ($000)	**June 30, 2022**	December 31, 2021
Current	**3,347**	1,706
31 – 60 days	**10**	28
61 – 90 days	**5**	40
> 90 days	**1**	3
Allowance for doubtful accounts	**-**	-
Total	**3,363**	1,777

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

Liquidity Risk

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

As at June 30, 2022, as a result of the proposed acquisition of SDX (Note 4), the Company was holding $nil cash and cash equivalents (December 31, 2021 - $25.5 million), restricted cash of $39.2 million (December 31, 2021 - $nil) and the Credit Facilities outstanding balance was $15.9 million (December 31, 2021 - $nil) (Note 7). The unused portion of the Operating Loan was $4.05 million as the Company had outstanding letters of credit for $0.15 million (December 31, 2021 - $0.15 million).

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

On August 4, 2022, following the termination of the Transaction (Note 4), the £25.0 million held in escrow was transferred back into Tenaz's bank account, the outstanding balances on the Credit Facilities were settled and the foreign exchange swaps were settled.

Market Risk

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

Commodity Price Risk

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

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

Foreign currency risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar as compared to the US dollar will reduce the prices received by Tenaz for its petroleum and natural gas sales. In addition, the Company is exposed to foreign exchange risk in relation to the GBP denominated restricted cash (Note 3), GBP 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 June 30, 2022, Tenaz held foreign exchange swaps fair valued with a $0.3 million asset recorded on the balance sheet.

The following table summarizes the resulting unrealized gains (loss) impacting income before tax due to the respective changes in the period end and applicable foreign exchange rates, with all other variables held constant:

($000)	Exchange Rate	June 30, 2022 Increase 10%	Decrease 10%
CAD relative to GBP			
GBP restricted cash	Period End	(3,917)	3,917
Foreign exchange swaps	Forward	3,923	(3,923)

Interest rate risk

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

If interest rates were to increase or decrease by one percent, it is estimated that Tenaz's net income (loss) would change by approximately $1,000 for the three and six months ended June 30, 2022.

Derivative instruments assets and liabilities

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

The table below summarizes the fair values as at June 30, 2022 and December 31, 2021:

($000)	Commodity	Foreign exchange	**June 30 2022**
Derivative instrument assets	-	295	**295**
Derivative instrument liabilities	-	-	**-**
Net financial derivative instrument asset	-	295	**295**

($000)	Commodity	Foreign exchange	December 31 2021
Derivative instrument assets	-	-	-
Derivative instrument liabilities	(600)	-	(600)
Net financial derivative instrument liability	(600)	-	(600)

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

($000)	Three months ended June 30 2022	2021	Six months ended June 30 2022	2021
Realized loss				
Commodity contracts	**(853)**	(612)	**(1,824)**	(1,015)
Realized loss on derivative instruments	**(853)**	(612)	**(1,824)**	(1,015)
Unrealized gain (loss)				
Commodity contracts	**623**	(595)	**600**	(1,461)
Foreign exchange swaps	**295**	-	**295**	-
Unrealized gain (loss) on derivative instruments	**918**	(595)	**895**	(1,461)
Gain (loss) on derivative instruments	**65**	(1,207)	**(929)**	(2,476)

The following is a summary of the derivative instruments in place as at June 30, 2022:

Period	Type of Contract	Notional Amount	Notional Amount	Average Rate	Fair Value at June 30, 2022 ($000)
Foreign Currency Swaps					
August 2022	Swap	GBP 25,000,000	CAD 39,525,300	1.5810	295
Derivative instruments asset					**295**

On August 4, 2022, following the termination of the Transaction (Note 4), the £25.0 million held in escrow was transferred back into Tenaz's bank account, the outstanding balances on the Credit Facilities were settled and the foreign exchange swaps were settled.

13. CAPITAL MANAGEMENT

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

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

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

Management views adjusted working capital (net debt) as a key industry benchmark and measure to assess the Company's financial position and liquidity. 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) as at June 30, 2022 and December 31, 2021 is summarized as follows:

($000)	**June 30, 2022**	December 31, 2021
Current assets	**43,126**	27,499
Current liabilities	**(23,400)**	(7,411)
Working capital surplus	**19,726**	20,088
Exclude fair value of derivative instruments	**(295)**	600
Adjusted working capital	**19,431**	20,688

The Company has not paid or declared any dividends since the date of incorporation. In 2021, Tenaz changed the reporting of adjusted working capital (net debt) to include the current portion of lease liabilities and current portion of decommissioning liabilities, if any. There have been no other changes in the Company's approach to capital management in 2022.

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended June 30		**Six months ended June 30**	
($000)	**2022**	2021	**2022**	2021
Provided by (used in):				
Accounts receivable	**(508)**	(143)	**(1,586)**	(591)
Prepaid expenses and deposits	**(76)**	(11)	**(46)**	(4)
Accounts payable and accrued liabilities	**3,565**	(501)	**645**	359
Deferred put option premium included in accounts payable and accrued liabilities	**-**	(72)	**-**	(72)
	2,981	(727)	**(987)**	(308)
Provided by (used in):				
Operating activities	**(168)**	(362)	**(2)**	(344)
Investing activities	**3,149**	(365)	**(985)**	36
	2,981	(727)	**(987)**	(308)

15. IMPACT OF ACCOUNTING POLICY CHANGE

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

Consolidated Balance Sheets

As at	**June 30, 2021**			**December 31, 2020**		
($000)	**Previous accounting policy**	**Effect of change**	**Restated**	**Previous accounting policy**	**Effect of change**	**Restated**
E&E Assets	-	-	-	260	-	260
Property and equipment	31,369	707	32,076	32,872	-	32,872
Decommissioning liability	5,429	(2,764)	2,665	5,802	(3,672)	2,130
Retained earnings (deficit)	(23,369)	3,470	(19,899)	(22,063)	3,672	(18,391)

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

	For the year ended December 31 2021	For the three months ended June 30, 2021			For the six months ended June 30, 2021		
($000)	Effect of change	Previous accounting policy	Effect of change	Restated	Previous accounting policy	Effect of change	Restated
Depletion, depreciation and amortization	31	1,113	16	1,129	2,143	30	2,173
Impairment	487	330	8	338	330	8	338
Accretion of decommissioning liability	96	25	24	49	51	46	97
(Gain) loss on property dispositions	118	(690)	86	(604)	(922)	118	(804)
Net income (loss) and comprehensive income (loss)	(732)	(398)	(134)	(532)	(1,306)	(202)	(1,508)
Net income (loss) per share ($/share) (Note 10)							
Basic	(0.05)	(0.04)	(0.01)	(0.05)	(0.12)	(0.02)	(0.14)
Diluted	(0.05)	(0.04)	(0.01)	(0.05)	(0.12)	(0.02)	(0.14)

Consolidated Statements of Cash Flows

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

16. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Normal Course Issuer Bid

On May 30, 2022, the Board of Directors approved management to pursue approval from the TSX to institute a normal course issuer bid which will be established for the ability to repurchase, for cancellation, up to 10% of the issued and outstanding common shares of the company (the "**NCIB**").

On August 5, 2022, the Company received TSX approval to purchase the maximum allowable number of Common Shares over the next twelve-month period (up to 2,619,970 Common Shares representing approximately 9.2% of the outstanding Shares and 10% of the public float of Common Shares). The actual number of Common Shares ultimately purchased will be a function of several factors including, but not limited to, the market price of the Common Shares, the maximum daily allowable repurchase volume under TSX rules, the commodity price outlook, and other factors deemed relevant by the Board of Directors of Tenaz. Purchases made pursuant to the NCIB will be made in the open market through the facilities of the TSX or through alternative Canadian trading systems. Common Shares purchased pursuant to the NCIB will be cancelled. The number of Common Shares that can be purchased is subject to a daily maximum of 6,108 Common Shares, subject to certain prescribed exceptions, which is 25% of the average daily trading volume for the Common Shares on the TSX being 24,435 Common Shares for the period from the TSX Graduation on May 12, 2022 to July 31, 2022.

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

The Company expects to commence Common Share purchases on or after August 12, 2022.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Marty Proctor
Chair

Anna Alderson
Independent Director

John Chambers
Independent Director

Mark Rollins
Independent Director

Anthony Marino
President and Chief Executive Officer and Director

OFFICERS

Anthony Marino
President and Chief Executive Officer and Director

Bradley Bennett
Chief Financial Officer

Michael Kaluza
Chief Operating Officer

David Burghardt
Senior Vice President, Canada Business Unit

Jonathan Balkwill
Vice President, Business Development

Jennifer Russel-Houston
Vice President, Geoscience

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

ATB Financial
Calgary, Alberta

LEGAL COUNSEL

Lawson Lundell LLP
Calgary, Alberta

Torys LLP
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Odyssey Trust Company
Calgary, Alberta

STOCK TRADING

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

Tenaz Energy