2022 FOURTH QUARTER REPORT

FINANCIAL AND OPERATIONAL SUMMARY

($000 CAD, except per share and per boe amounts)	Three months ended Dec 31 2022	Sep 30 2022	Dec 31 2021	Year ended Dec 31 2022	Dec 31 2021
FINANCIAL					
Petroleum and natural gas sales	**10,852**	7,690	5,453	**34,087**	17,830
Cash flow from operating activities	**4,809**	1,444	373	**9,347**	3,945
Funds flow from operations(1)	**3,236**	2,280	216	**8,612**	3,499
Per share – basic(1)(3)	**0.11**	0.08	0.01	**0.30**	0.24
Per share – diluted(1)(3)	**0.11**	0.08	0.01	**0.30**	0.24
Net income (loss)	**747**	224	(258)	**5,237**	8,339
Per share – basic(3)	**0.03**	0.01	(0.01)	**0.18**	0.57
Per share – diluted(2)(3)	**0.03**	0.01	(0.01)	**0.18**	0.56
Capital expenditures(1)	**4,988**	7,882	5,840	**17,101**	10,391
Adjusted working capital (net debt)(1)	**14,044**	13,887	20,688	**14,044**	20,688
Common shares outstanding (000)					
End of period – basic(3)	**28,093**	28,405	28,438	**28,093**	28,438
Weighted average for the period – basic(3)	**28,242**	28,520	26,069	**28,424**	14,718
Weighted average for the period – diluted(2)(3)	**28,244**	28,690	27,450	**28,878**	14,876
OPERATING					
Average daily production					
Heavy crude oil (bbls/d)	**827**	687	502	**667**	506
NGLs (bbls/d)	**53**	47	78	**56**	65
Natural gas (mcf/d)	**3,843**	2,929	2,895	**2,972**	2,666
Total (boe/d)(4)	**1,520**	1,222	1,063	**1,218**	1,015
($/boe)(4)					
Petroleum and natural gas sales	**77.59**	68.39	55.78	**76.67**	48.12
Royalties	**(11.12)**	(15.23)	(7.10)	**(13.38)**	(5.60)
Operating expenses	**(21.56)**	(17.04)	(12.20)	**(18.69)**	(13.43)
Transportation expenses	**(2.60)**	(1.75)	(1.81)	**(2.29)**	(1.99)
Operating netback(1)	**42.31**	34.37	34.67	**42.31**	27.10
BENCHMARK COMMODITY PRICES					
WTI crude oil (US$/bbl)	**82.63**	91.64	77.19	**94.23**	67.91
WCS (CAD$/bbl)	**77.39**	93.72	78.71	**98.53**	68.73
AECO daily spot (CAD$/mcf)	**5.23**	4.45	4.74	**5.43**	3.63
TTF (CAD$/mcf)	**50.12**	78.96	41.08	**52.84**	20.40

(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 months and year ended December 31, 2022 (“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) 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.
(4) 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

Fourth Quarter and Year-End 2022 Results

- Production volumes averaged 1,520 boe/d[1] in Q4, up 43% year-over-year and 24% from Q3. For 2022 as a whole, production averaged 1,218 boe/d, up 20% from full-year 2021 production. The production increase was primarily due to volumes from new wells drilled in the second half of 2022 and occurred despite cold weather induced fluid processing restrictions in Q4.
- Funds flow from operations ("FFO")[2] for 2022 was $8.6 million, up 146% from 2021. Higher 2022 funds flow from operations resulted from increases in both commodity prices and production volumes, partially offset by $1.8 million of realized hedging losses and $2.7 million of expensed transaction costs from our M&A activities.
- Net income for Q4 2022 was $0.7 million, as compared to $0.2 million in Q3, as a result of increased operating netback[2] partially offset by transaction costs. Full year 2022 net income was $5.2 million, which was lower than net income of $8.3 million in 2021, driven by a large impairment reversal recorded in 2021.
- The Company ended 2022 with positive adjusted working capital[2] of $14 million, up slightly from Q3 2022, despite investing in the drilling, completion and equipping of two (1.75 net) wells in Canada and incurring transaction costs for the Netherlands acquisition in Q4.
- During the fourth quarter, we completed the drilling and fracture stimulation of two (1.75 net) wells and brought both wells on production. The second well has a completed length of 2.16 miles, making it the longest well drilled to-date in the field. Production to-date from these wells exceeds their expected type curves.
- In late December 2022, we purchased a private company holding non-operated interests in the Dutch North Sea ("DNS"). The transaction adds high-value European natural gas production and associated infrastructure to our portfolio in a region of strategic importance to Tenaz. The transaction was completed without the issuance of equity, resulting in significant accretion for our shareholders. As consideration for the Netherlands acquisition, Tenaz posted €40.9 million security related to future decommissioning liabilities. On February 28, 2023, this security requirement was reduced as expected to €11.75 million. As a result of the security reduction, a credit facility which we put in place to facilitate the acquisition has been repaid in full. Tenaz's original $10 million credit facility with ATB Financial is undrawn and available.
- Our 2023 budget has been updated to reflect the addition of the Netherlands acquisition. Our Exploration and Development ("E&D") capital guidance is now $20 to $24 million, and annual production guidance is 2,200 to 2,300 boe/d. Based on the current commodity strip, funds flow from operations is expected to exceed our E&D capital investment program during 2023.
- Our Normal Course Issuer Bid ("NCIB") program retired 454,700 shares (1.6% of basic common shares) at an average cost of $1.66 per share during 2022. We will continue to be active in retiring shares when market prices for our shares are meaningfully below our assessments of fair value. As of the end of February 2023, we have retired 688,700 shares at an average cost of $1.88 per share, utilizing approximately 26% of our approved limit of shares that can be repurchased through this program.

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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 press release.

[2] This is a non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section of this press release.

Year-End 2022 Reserves[3]

- Proved Developed Producing ("PDP") reserves increased 75%, with a 31% increase through Canadian organic activities alone, reflecting a reserve replacement ratio of 392%. PDP reserves at year-end totaled 3.0 million boe, and after-tax net present value discounted at 10% ("NPV10") increased 112% to $48.2 million ($1.72 per share).
- Total Proved (“1P”) reserves increased 30%, reflecting a reserve replacement ratio of 548%. 1P reserves at year-end totaled 8.8 million boe, and after-tax NPV10 increased 100% to $86.0 million ($3.06 per share).
- Total Proved + Probable (“2P”) reserves increased 20%, reflecting a reserve replacement ratio of 618%. 2P reserves at year-end totaled 13.6 million boe, and after-tax NPV10 increased 94% to $141.1 million ($5.02 per share).
- After-tax NPV10 for our Canadian assets increased by 50% to $34.1 million at the PDP level, 65% to $71.0 million at the 1P level, and 51% to $110.1 million at the 2P level. After-tax PV10s for our newly-acquired Netherlands natural gas assets were $14.2 million, $15.0 million and $31.0 million at the PDP, 1P and 2P levels, respectively.
- PDP Finding and Developing (“F&D”) costs (including future development capital (“FDC”)) were $17.74/boe, resulting in a 2.4x recycle ratio based on our 2022 operating netback[4] of $42.31/boe. F&D costs (including FDC) were $16.01 and $14.69 at the 1P and 2P levels, generating recycle ratios of 2.6x and 2.9x, respectively. F&D costs solely reflect the results of our organic investment program in Canada.
- PDP Finding, Developing and Acquisition Costs (“FD&A”), were $10.50/boe (including FDC), resulting in a 4.0x recycle ratio. FD&A costs (including FDC) were $11.40 and $9.53 at the 1P and 2P levels, generating recycle ratios of 3.7x and 4.4x, respectively. The FD&A costs and resulting recycle ratios reflect both organic activities in Canada and the Netherlands acquisition.
- Reserve life indices were 5.4 years, 15.8 years and 24.6 years, respectively, for PDP, 1P and 2P reserves, based on our Q4 2022 production rate.

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

[4] This is a non-GAAP and other financial measure. Refer to “Non-GAAP and Other Financial Measures” included in the “Advisories” section of this press release.

PRESIDENT'S MESSAGE

We view 2022 as a year in which the newly-created Tenaz Energy made significant advancements in three critical areas: development of our asset base in Canada, closing our first international acquisition and strengthening our organizational capability. These three areas are important to both the near- and long-term performance of Tenaz.

Our Canadian asset base consists of a single, high-quality oil project at Leduc-Woodbend. In this field, we made technical advancements in a number of key geologic, engineering and operational inputs to our development program. A substantially improved geologic description and frac design changes made it possible to increase the length of our development wells and simultaneously improve frac geometry and placement success. We reached lateral lengths in excess of two miles in our 2022 program while achieving frac placement efficiency of nearly 100%. The ability to drill longer laterals and confidently place more frac stages substantially increased our capital efficiency as evidenced by a very strong 2P F&D cost (including FDC) of $14.69 per boe, with a corresponding recycle ratio of 2.9. We have prepared the Leduc-Woodbend field for enhanced long-term growth through new land acquisition and by building production scale, with related reductions in unit cost expected in 2023 and beyond.

Our Netherlands acquisition is directly in line with our strategy of making high-return acquisitions primarily targeting the European and Middle East North Africa (“MENA”) regions. In this case, we acquired a private company with upstream and midstream offshore assets by posting decommissioning security as the primary form of consideration. With no share issuance, this acquisition enhances our per share metrics for production, reserves, FFO and NPV10. The transaction diversifies our production base, giving us an approximately one-third weighting to high-value European natural gas, which currently has a calendar-year 2023 strip of €47 per mwh ($20.37 per mmbtu). In addition, we acquired 11.3% ownership in Noordgastransport B.V. (“NGT”), which holds one of the largest gas-gathering and processing networks in the DNS, and exposure to a large potential Carbon Capture and Storage (“CCS”) project.

We will seek to expand our asset base in our regions of strategic interest by pursuing additional value-adding transactions. We believe the asset market is more conducive to this objective than at any time in our company’s eighteen-month history. Commodity prices have receded from the highs of early 2022, introducing greater realism into sellers’ expectations. As a result, we have been able to substantially expand and improve the quality of potential acquisitions in our transaction pipeline.

Organizational capability is the essential requirement for success in both our organic and acquisition activities. We started Tenaz in autumn 2021 with a strong officer corps of aligned and technically capable oil and gas professionals. During 2022 and early 2023, we made several key additions to our production engineering and acquisition evaluation technical ranks. Our new production engineering personnel are among the key drivers of our capital efficiency improvements in Leduc-Woodbend. In the acquisition side of our business, other new engineering colleagues give us the ability to evaluate more transactions as we scour our target regions for the highest return projects. Our goal is to take the controllable risk out of the M&A process to the largest extent possible, and our enhanced organization furthers that objective. We believe Tenaz is positioned for success in both elements of our business plan, international M&A and domestic organic development.

Operations Update

We continue to enhance our Leduc-Woodbend project returns by improving our knowledge of the Rex reservoir and depositional environment, extending horizontal well lengths, and continuously improving our frac stimulation design and execution. Better geologic and reservoir description allows optimal placement of well trajectories to remain in the pay column for the entirety of the horizontal length. Drilling longer wells reduces the surface footprint required for field development and improves capital efficiency by increasing ultimate recovery without a commensurate increase in well cost. Improved stimulation design reduces completion and well clean-up costs, and increases proppant concentrations and resulting pack conductivity, thereby generating improved production performance.

In our third quarter release, we announced an increase to our 2022 capital program and commenced an additional two wells (1.75 net) in the Leduc-Woodbend field. During the fourth quarter, we completed the drilling and fracture stimulation of those wells and brought them on production. The shorter of the two wells had a horizontal length of 1.25 miles and was completed with 71 frac stages (with 100% placement). The second well in this program had a horizontal length of 2.16 miles, making it the longest well drilled to date in the field. This well was completed with 124 stages (again with 100% placement).

Production volumes from Leduc-Woodbend averaged 1,425 boe/d in Q4 2022, an increase of 17% compared to Q3 2022 and 34% over Q4 2021. For full-year 2022, Leduc-Woodbend volumes were up 18% over 2021. The production increase was driven primarily by continued strong performance from the two (1.75 net) summer-program wells which were drilled in Q3 and strong initial rates during clean-up from the additional two (1.75 net) wells finished in Q4. The Q4 wells began producing hydrocarbons late in November 2022, with the longer of the two wells (2.16 mile length) recording a post-cleanup IP90 of 280 boe/d (83% liquids). The shorter well (1.25 mile length) achieved first oil quickly but has taken longer to recover all of its load fluid. The February 2023 production rate for this well averaged 260 boe/d (83% liquids) and is still cleaning up.

Capital investment for the fourth quarter was $5.0 million, bringing total investment in 2022 to $17.1 million. Capital investment was at the high end of our guidance range of $15 to $17 million, due to the impact of inflation in materials and services, particularly tubulars and construction.

We continue to high-grade and expand our Leduc-Woodbend land base through swaps, private mineral leasing, and Crown land sales. Although the absolute size of our Leduc-Woodbend land position remained relatively constant in 2022, we leased 1,920 gross (1,680 net) hectares of acreage that upgraded the quality of our land base by filling in holes in our core area and adding new prospective lands at the currently-identified field limits.

In Netherlands, our newly acquired asset made small contributions to Q4 2022 and 2022 annual production of 95 boe/d and 24 boe/d, respectively, owing to closing the transaction late in December. Our Netherlands asset continues to perform as expected with an average production rate of approximately 4.8 mmcf/d for the first two months of 2023.

ESG performance remains our highest priority. In our operated asset at Leduc-Woodbend, we completed 2022 with no injuries, reportable incidents or vehicle accidents. We have established a practical and forward-looking safety program placing emphasis on personal responsibility, hazard identification, investigation of “near misses” as learning opportunities, and regulatory compliance. In the environmental realm, we proactively modified a number of natural gas-operated devices to reduce their methane emissions by approximately 90%. Finally, we note that our share of the potential CCS project in the Dutch North Sea could offset carbon emissions for a Tenaz production level of 50,000 boe/d or more, compensating for a significant amount of our targeted long-term growth.

Outlook for 2023

Our expanded production scale at Leduc-Woodbend bodes well for improvement in unit costs. With the strong performance of recent wells and improved reservoir understanding, we are confident in conducting a planned four-well (3.35 net) drilling program for 2023. We expect our Canadian unit to produce 1,450 to 1,550 boe/d this year, an increase of 25% over 2022.

Our Netherlands assets are expected to produce approximately 4.5 mmcf/d (750 boe/d) and to contribute meaningful free cash flow for 2023. Our Netherlands capital budget includes minor workover and production enhancement activities. Though not currently budgeted, there is also the potential for drilling activity in Netherlands late in 2023.

In combination with Canada, our consolidated production guidance for 2023 is 2,200 to 2,300 boe/d with capital guidance of $20 to $24 million. Under the current strip, this capital program is more than fully funded by internal cash flow generation.

International M&A will continue to be our top priority. While there can be no certainty about the consummation or timing of any of the acquisitions in our current transaction pipeline, we believe the M&A market has moved in favor of our disciplined approach to evaluation and bidding. We maintain our playbook for new asset integration, which we think will be particularly effective on future acquisitions that we operate. We believe that we approach the M&A market from a position of strength with positive free cash flow from our growing organic asset base, negative net debt and a supportive shareholder base.

Prior to the recapitalization in October 2021, our predecessor company had outstanding indebtedness and was required by its lenders to have a certain percentage of its sales hedged. Tenaz is not currently required to hedge as we are now undrawn on our credit facility. Nonetheless, during Q4 2022 and Q1 2023, we executed some hedging transactions to mitigate a portion of our commodity price exposure. For AECO natural gas, we have price protection at levels exceeding the current strip for 3,000 GJ/d for Q1 2023 and 2,000 GJ/d for Summer 2023. We also have firm transport contracted for the large majority of our expected AECO natural gas production in 2023.

For WTI oil, we swapped 200 bbls/d at $75 per bbl for the first two months of 2023. In addition, we have fixed the differential exposure for 200 bbls/d of heavy oil (WCS marker) for the last nine months of 2023 at US$16.50 per bbl versus WTI.

We currently have hedges in place on all or part of the price exposure on 22% of our projected oil-equivalent production for 2023. Although we are not compelled to hedge, we will monitor the commodity markets for further opportunities to mitigate cash flow risks. Details of our hedging positions can be found in our annual report, available on our website and SEDAR.

We took important steps for the future of Tenaz in 2022. We are confident in our strategy and our ability to execute it. All of our management and directors are Tenaz shareholders, and every one of our employees is incentivized to deliver for our shareholder base. On behalf of our Board of Directors, we thank our shareholders and full stakeholder group for their ongoing support of Tenaz. We look forward to reporting our results to you during 2023.

/s/ Anthony Marino

President and Chief Executive Officer
March 21, 2023

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.) (the "Company" or "Tenaz") is dated March 21, 2023 and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended December 31, 2022 and 2021, as well as the Company's Annual Information Form ("AIF") that is found on SEDAR at www.sedar.com. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are sometimes referred to in this MD&A as Generally Accepted Accounting Principles ("GAAP").

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

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

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

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. Tenaz has domestic operations in Canada along with offshore natural gas assets in the Netherlands. The domestic operations consist of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. The Netherlands natural gas assets are located in the Dutch sector of the North Sea. Additional information regarding Tenaz is available on SEDAR and its website at www.tenazenergy.com. Tenaz's Common Shares are listed for trading on the Toronto Stock Exchange under the symbol "TNZ".

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”).

Tenaz views the TSX Graduation as a natural step in executing the corporate strategy outlined at the time of the reorganization in 2021.

ACQUISITION UPDATE

On December 20, 2022, Tenaz announced the closing of the acquisition of 100% of the issued and outstanding shares of a private company with Netherlands upstream and midstream assets (the “Netherlands Acquisition”). The Netherlands Acquisition comprised approximately 5 mmcf/d of natural gas production from 9 offshore licenses in the Dutch North Sea (“DNS”). The producing fields are located on the K9ab, K9c, K12 and L10/L11a licenses operated by Neptune Energy (“Neptune”), with a production-weighted average working interest of 8.4%. In addition to the licenses that are currently producing, Tenaz has acquired a position in 5 non-producing licenses consisting of 9.85% interest in the N7a license and 5% interest in the F10, F11a, F17a Deep and F18a Deep licenses.

The Netherlands Acquisition also included an 11.34% ownership interest in Noordgastransport B.V. (“NGT”), which holds one of the largest gas-gathering and processing networks in the DNS. NGT has been in operation for over forty-five years, with nearly 500 km of pipelines in the DNS. Gas transported through the NGT pipeline network is treated at NGT’s onshore gas plant at Uithuizen before entering the Netherlands national grid. Tariff revenue generated through Tenaz’s NGT ownership is expected to provide a stable income stream to partially offset operating costs from the producing assets.

CAPITAL AND PRODUCTION GUIDANCE

Following the announcement of the 2023 budget approved by the Board of Directors of Tenaz, and updated for production and capital investment for the acquired assets in the Netherlands, the combined restated guidance for 2023 is summarized below.

	November 10, 2022 Updated Guidance	**2022 Full Year Results**
2022 average production volumes (boe/d)	1,200 to 1,300	**1,218**
Capital expenditures[(1)] ($000)	16,000 to 17,000	**17,101**
Wells:		
Drilled	4 (3.50 net)	**4 (3.50 net)**
Completed	4 (3.50 net)	**4 (3.50 net)**

	2023 Guidance (restated for Netherlands Acquisition)
2023 average production volumes (boe/d)	2,200 to 2,300
Capital expenditures[(1)] ($000)	20,000 to 24,000
Wells:	
Drilled	4 (3.35 net)
Completed	4 (3.35 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.

RESULTS OF OPERATIONS

Operational and Financial Review

	Q4 2022	Q3 2022	Q4 2021	**2022**	2021
Production					
Heavy crude oil (bbls/d)	**827**	687	502	**667**	506
Natural gas liquids ("NGLs") (bbls/d)	**53**	47	78	**56**	65
Natural gas (mcf/d)	**3,843**	2,929	2,895	**2,972**	2,666
Total (boe/d)	**1,520**	1,222	1,063	**1,218**	1,015
Net income (loss)	**747**	224	(258)	**5,237**	8,339
Per share – basic(3)	**0.03**	0.01	(0.01)	**0.18**	0.57
Per share – diluted(1)(3)	**0.03**	0.01	(0.01)	**0.18**	0.56
Cash flow from operating activities	**4,809**	1,444	373	**9,347**	3,945
Funds flow from operations(2)	**3,236**	2,280	216	**8,612**	3,499
Per basic share(2)(3)	**0.11**	0.08	0.01	**0.30**	0.24
Per basic diluted share(2)(3)	**0.11**	0.08	0.01	**0.30**	0.24
Adjusted working capital (net debt)(2)	**14,044**	13,887	20,688	**14,044**	20,688
Activity					
Capital expenditures ($000)(2)	**4,988**	7,882	5,840	**17,101**	10,391
Wells drilled - Gross/(Net)	**-**	2 (1.75)	2 (1.75)	**4 (3.50)**	3 (2.63)
Wells completed - Gross/(Net)	**-**	2 (1.75)	2 (1.75)	**4 (3.50)**	4 (3.52)

(1) Basic weighted average shares are used to calculate diluted per share amounts in periods in which there is a loss position.
(2) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(3) 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 Q4 2022 increased 24% to 1,520 boe/d from the prior quarter and 43% from Q4 2021 due to additional volumes brought on production from 2022 capital activity. During the second half of 2022, we brought on production a total of four gross (3.5 net) Rex wells.

In 2022, Tenaz's production increased to 1,218 boe/d (20% higher than 2021) primarily due to the contributions from the new wells in 2022. Combined with the drilling campaign during late 2021 and the budgeted capital activity during the second half of 2022, six (5.25 net) wells were brought on production. Productive capacity continued to climb during the year resulting in strong results exiting 2022. The wells drilled in the Leduc-Woodbend field are equipped to handle the long-term fluid profile of the wells and consequently are brought on production at initial rates that are below the underlying deliverability of the reservoir. This measured approach to initial production smooths out large surges of production as new wells are added, and allows for more balanced facility throughput and more efficient capital deployment of artificial lift equipment.

Net Income

In Q4 2022, Tenaz recorded net income of $0.7 million compared to net loss of $0.3 million in Q4 2021. The increase in net income was primarily due to a higher operating netback for 2022, partially offset by transaction costs and other expenses associated with executing our strategy. Transaction costs are expensed as incurred, with the acquired asset contributions recorded as earned in future periods. Improved commodity prices were the largest contributor to higher margin on the producing assets. Quarterly net income was higher than the prior quarter due to a higher operating netback for Q4 2022 with higher realized pricing partially offset by changes in operating costs. Higher operating costs resulted from increased chemical usage, higher electricity prices and increased winter workover activity. The fourth quarter had a small income contribution from the assets acquired late in 2022 with net income from those assets contributing $0.2 million after deducting transaction costs.

The Company's 2022 net income was $5.2 million compared to net income of $8.3 million in 2021. Net income was lower for 2022 versus the full year 2021 due to the reduced impact of impairment reversals in 2022 as compared to 2021. In 2021, the Company recorded $9.7 million of impairment reversal compared to $4.2 million in 2022. After accounting for the change in the impairment reversal in the respective periods, increased operating netback for full-year 2022 was partially offset by higher costs associated with the acquisition strategy of the Company. The incurred costs for the year associated with the new strategy are recorded in general and administrative expenses and transaction costs. The increase in costs was associated with business development, including increased staffing, legal expenses and transaction fees in 2022. These costs incorporate the Netherlands Acquisition, the terminated SDX Energy Plc ("SDX") transaction and other business development activities.

Funds flow from operations

In Q4 2022, funds flow from operations increased by $0.9 million to $3.2 million compared to $2.3 million in Q3 2022. The increase in funds flow from operations was due to higher production and per boe profitability, but was partially offset by transaction costs incurred for the Netherlands Acquisition and other business development expenses. Funds flow from operations for the quarter was higher than the fourth quarter of 2021 due to increased operating netback attributable to higher production and commodity prices and the absence of realized hedge losses incurred in the prior year.

Tenaz's 2022 funds flow from operations was $8.6 million compared to $3.5 million in 2021. The 146% increase over the prior year was the result of increased revenue from higher commodity prices and production volumes, partially offset by higher operating costs, G&A and transaction expenses. Operating costs for 2022 increased due to higher production, which increased 20% year-over-year, whereas higher G&A and transaction expenses were primarily associated with the acquisition strategy of the Company.

Benchmark Commodity Prices

	Q4 2022	Q3 2022	Q4 2021	**2022**	2021
Average Benchmark Prices					
WTI crude oil (US$/bbl)[1]	**82.63**	91.64	77.19	**94.23**	67.91
WCS differential (US$/bbl)[2]	**(25.64)**	(19.79)	(14.64)	**(18.20)**	(13.04)
US$/CAD$ exchange rate	**0.737**	0.766	0.794	**0.769**	0.798
WCS (CAD$/bbl)	**77.39**	93.72	78.71	**98.53**	68.73
AECO daily spot (CAD$/mcf)	**5.23**	4.45	4.74	**5.43**	3.63
TTF (CAD$/mcf)	**50.12**	78.96	41.08	**52.84**	20.40
Average Realized Prices[3]					
Heavy crude oil ($/bbl)	**90.04**	99.73	80.20	**101.79**	69.23
Natural gas ($/mcf)	**10.41**	71.12	5.04	**7.21**	3.95
Natural gas liquids ($/bbl)	**65.75**	4.00	56.78	**72.96**	50.87
Petroleum and natural gas sales ($/boe)	**77.59**	68.39	55.78	**76.67**	48.12

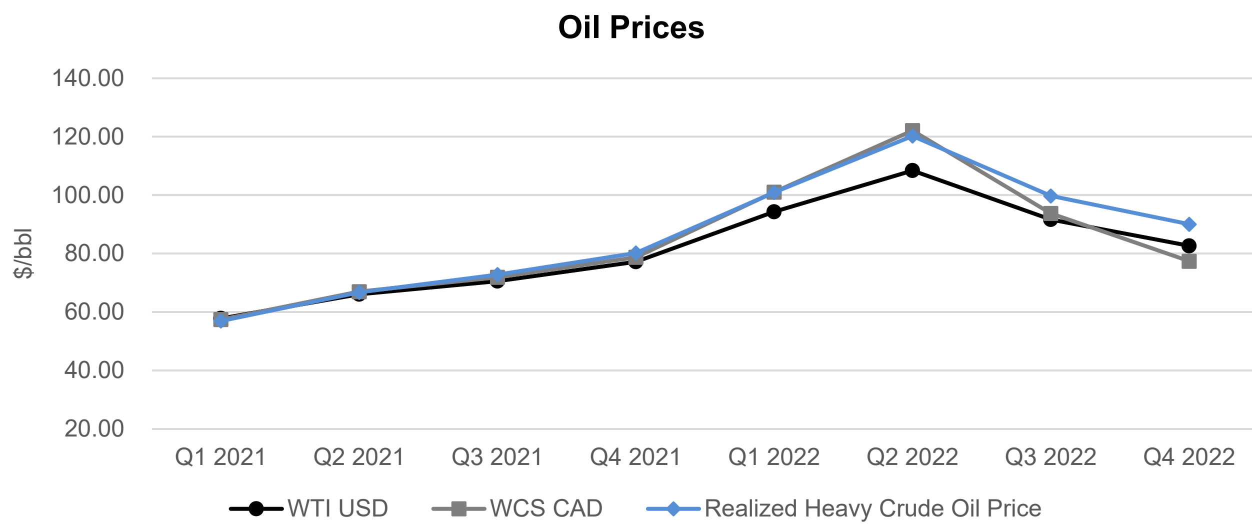
(1) WTI represents posting price of West Texas Intermediate crude oil.
(2) WCS differential represents the difference between the average market price for the benchmark Western Canadian Select ("WCS") heavy crude oil and WTI.
(3) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial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

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

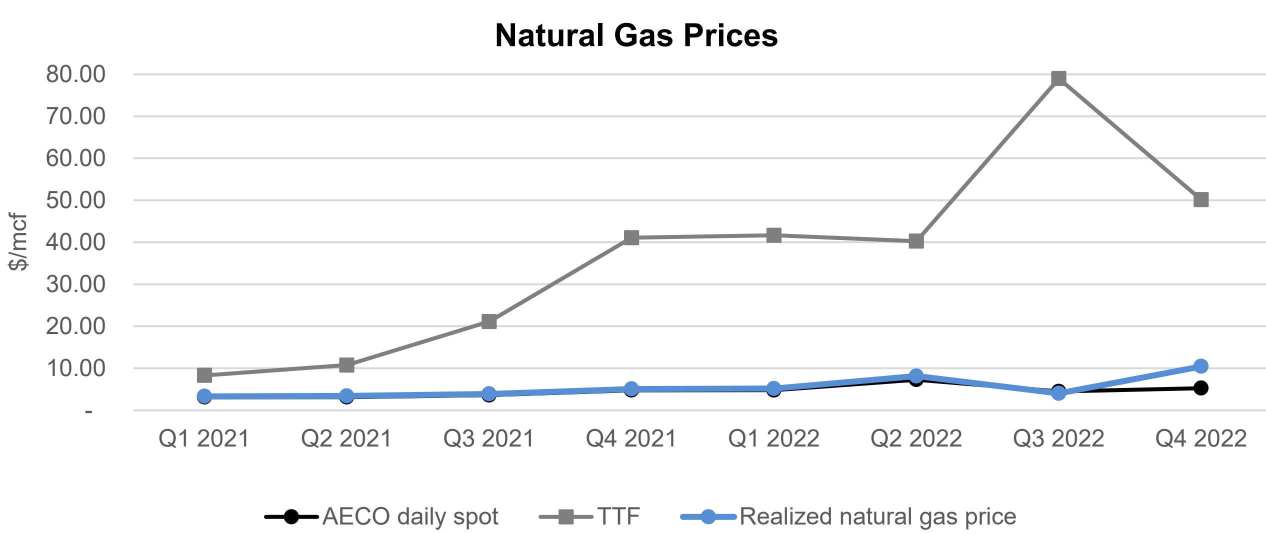
The average benchmark prices for crude oil are impacted by global and regional events that dictate the level of supply and demand for these commodities. The principal crude oil benchmarks that Tenaz compares its oil price to are the West Texas Intermediate (WTI) and Western Canadian Select (WCS) oil prices. 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, inventory levels in North America and lack of pipeline infrastructure or takeaway capacity connecting key consuming oil markets.

In Q4 2022, WTI increased 7% to US$82.63 per barrel compared to US$77.19 per barrel in Q4 2021, and the differential between WTI and WCS widened to US$25.64 per barrel in Q4 2022 from US$14.64 per barrel in Q4 2021. Tenaz benefited from delivering oil to light oil terminals for blending in Q4 2022, realizing a heavy crude oil price of $90.04 per barrel, a $12.65 premium over WCS, compared to the realized heavy crude oil price in Q4 2021 of $80.20 with a $1.49 premium over WCS.

In 2022, WTI increased 39% to US$94.23 per barrel compared to US$67.91 per barrel in 2021, and the differential between WTI and WCS widened 40% to US$18.20 per barrel, resulting in WCS increasing 43% to $98.53 per barrel. Tenaz's realized heavy oil price increased 47% in 2022 to $101.79 per barrel from 2021.



In Q4 2022, Tenaz's realized natural gas price increased by 107% to $10.41 per mcf from Q4 2021 while the AECO daily spot price increased 10% to $5.23 per mcf from Q4 2021. The increase in realized natural gas prices was driven in part by the Company's acquisition of the Netherlands assets on December 20, 2022. Netherlands gas volumes trade primarily through the Dutch Title Transfer Facility ("TTF") virtual trading point for natural gas



which recorded a significantly higher realized price compared to the AECO daily spot. In 2022, the Company's realized natural gas price increased by 83% to $7.21 per mcf from Q4 2021 while the AECO daily spot price increased 50% to $5.43 per mcf over the same period.

Financial Review

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Sales					
Heavy crude oil	**6,851**	6,304	3,706	**24,789**	12,777
Natural gas liquids	**319**	307	406	**1,479**	1,209
Natural gas	**3,682**	1,079	1,341	**7,819**	3,844
Petroleum and natural gas sales	**10,852**	7,690	5,453	**34,087**	17,830
Royalties	**(1,555)**	(1,712)	(694)	**(5,947)**	(2,076)
Operating	**(3,015)**	(1,917)	(1,191)	**(8,308)**	(4,978)
Transportation	**(363)**	(197)	(178)	**(1,020)**	(737)
General and administrative expenses	**(1,217)**	(1,183)	(1,113)	**(5,056)**	(2,273)
Transaction costs	**(932)**	(295)	(1,117)	**(2,684)**	(1,245)
Interest and financing, net of income	**-**	(103)	(26)	**(99)**	(291)
Current income taxes	**(527)**	-	-	**(527)**	-
Realized foreign exchange loss	**(7)**	(3)	-	**(10)**	-
Realized loss on derivatives	**-**	-	(918)	**(1,824)**	(2,731)
Funds flow from operations(1)	**3,236**	2,280	216	**8,612**	3,499
Decommissioning liabilities settled	**(256)**	-	-	**(256)**	-
Changes in non-cash operating working capital	**1,829**	(836)	157	**991**	446
Cash flow from operating activities	**4,809**	1,444	373	**9,347**	3,945

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

Operating Netback Summary

($/boe)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Petroleum and natural gas sales	**77.59**	68.39	55.78	**76.67**	48.12
Royalties	**(11.12)**	(15.23)	(7.10)	**(13.38)**	(5.60)
Operating	**(21.56)**	(17.04)	(12.20)	**(18.69)**	(13.43)
Transportation	**(2.60)**	(1.75)	(1.81)	**(2.29)**	(1.99)
Operating netback(1)	**42.31**	34.37	34.67	**42.31**	27.10

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

In Q4 2022, operating netback increased compared to both Q4 2021 and Q3 2022. In 2022, operating netback increased 56% to $42.31 per boe from $27.10 per boe in 2021. The increase in operating netback was primarily driven by higher commodity prices during 2022 versus the comparable periods in 2021. The impact of higher commodity prices was partially offset by higher operating costs which resulted from inflation in services, higher workover activity, and elevated electricity prices.

Petroleum and Natural Gas Sales

Petroleum and natural gas sales in Q4 2022 increased 99% to $10.9 million, compared to $5.5 million in Q4 2021. The increase is attributable to higher production (up by 43%) and increased realized commodity prices (higher by 39%). Current quarter sales were also higher than the prior quarter due to both higher production and realized prices.

In 2022, petroleum and natural gas sales increased 91% to $34.1 million compared to $17.8 million in 2021. The increase was attributed to increased realized commodity prices (higher by 59% on average) and increased production volumes (higher by 20%).

The Netherlands Acquisition contributed natural gas sales of $2.0 million in December of 2022.

Royalties

In Q4 2022, royalty expense as a percentage of sales was 14% ($11.12 per boe) compared to 13% of sales ($7.10 per boe) in Q4 2021 and 22% of sales ($15.23 per boe) in Q3 2022. In Q4 2022, royalty expense decreased in comparison to Q3 2022 on a per boe basis as a result of a higher fraction of production from wells that benefit from reduced royalties for initial production periods. Royalty expense was higher for Q4 2022 versus the same quarter in the prior year as a result of higher production and higher commodity prices.

Royalty expense for 2022 increased to 17% of sales ($13.38 per boe) compared to 12% of sales ($5.60 per boe) in 2021. These increases are reflective of higher average royalty rates on Crown lands as Crown royalty rates vary depending on the product reference price, well production rates 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% for early production under the Drilling and Completion Cost Allowance program.

Operating

Operating expenses were higher in Q4 2022 compared to the prior quarter and the same quarter in 2021. Operating expense in the fourth quarter reflected higher activity in Canada due to new wells which were brought on production, higher and volatile Alberta electricity prices, increased chemical usage and well workover activities. Increased workover activities also faced higher per event costs with increases in prices for services and consumables. Full year 2022 had higher operating expenses due to higher workover activity, increased electricity costs, carbon taxes and generally higher activity attributable to increased field production. The Alberta power pool price significantly increased (higher by 58%) in 2022 compared to the average price in 2021.

On a per boe basis, operating expenses increased to $21.56 per boe in Q4 2022 compared to $12.20 per boe in Q4 2021. The change in per boe expense has the same elements as discussed above with increased production resulting in a commensurately higher amount of activity. As we build operating scale in the field, there are expected to be increased economies of scale. During this growth phase, the Company has been working on ensuring facilities and field services are optimal over the expected long-term operating conditions and production levels. In 2022, operating costs were $18.69 per boe, compared to $13.43 per boe in 2021. Also contributing to higher expenses in the 2022 year was the Netherlands Acquisition, which incurred $0.6 million in operating expenses in December 2022.

Transportation

Transportation expenses increased during Q4 2022 as compared to Q3 2022 and Q4 2021, primarily due to higher overall volumes sold. Transportation expense variations in the periods reflect trucking of crude oil to various sales points for optimal blending of the crude oil produced in pursuit of the highest overall netback. Netherlands transportation costs of $0.1 million were incurred in December for tariffs for natural gas.

General and Administrative ("G&A") Expenses

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Gross G&A	**1,443**	1,385	1,305	**5,897**	2,877
Capitalized G&A and overhead recoveries	**(226)**	(203)	(192)	**(841)**	(604)
G&A expenses	**1,217**	1,183	1,113	**5,056**	2,273

G&A expenses increased to $1.2 million in Q4 2022, compared to $1.1 million in Q4 2021. G&A expenses increased due to costs for additional staff and professional services associated with the Company's new strategy of evaluating and acquiring oil and natural gas assets in international markets. The Company has continued to build its team of professionals to effect its approach of detailed analysis and evaluation.

The overall increase in 2022 is due to additional staff following the reorganization of the Company, and increased professional services, specifically regarding the TSX Graduation and business development activities for the evaluation and acquisition of international assets.

Transaction Costs

Transaction costs of $2.7 million were incurred during 2022 related to costs for professional services and other expenses for the recently closed Netherlands Acquisition ($0.9 million during Q4 2022), and related to the terminated SDX transaction ($1.8 million Q2/Q3 2022). The 2021 transaction costs included legal costs, advisory fees, insurance, and severance costs which pertained to the recapitalization of Altura Energy Inc. (“Altura”) in the second half of 2021.

Business development costs associated with pursuing the Company’s new strategy are included in G&A until a definitive agreement is reached, after which time they are classified as transaction costs.

Interest and Financing Expenses, net of income

During 2022, Tenaz recognized interest and financing expenses, net of income of $0.1 million pertaining to Tenaz’s credit facilities, which were used to fund the cash deposit for the terminated SDX transaction during Q2 2022 and for charges related to the drawn balance on the facilities that supported the Netherlands Acquisition. Interest income earned on surplus cash balances is recorded net as it pertains to ongoing financing activities. During 2021, interest expense was incurred as a result of the drawn balance on the bank debt that existed prior to the recapitalization of Tenaz. The outstanding balance on the prior credit facility was fully repaid following the recapitalization in October 2021.

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 covenants and reducing foreign currency risk.

The Company’s realized loss on derivative instruments is detailed in the following table:

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Commodity contracts					
Crude oil contracts	**-**		(746)	**(1,423)**	(2,380)
Natural gas contracts	**-**	-	(172)	**(401)**	(351)
Realized loss on derivative instruments	**-**	-	(918)	**(1,824)**	(2,731)

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.

A summary of the derivative instruments in place as at December 31, 2022 are shown in the “Unrealized gain (loss) on derivative instruments” section below.

Net Income and Funds Flow from Operations

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

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Funds flow from operations[1]	**3,236**	2,280	216	**8,612**	3,499
Unrealized foreign exchange gain	**334**	329	-	**334**	-
Unrealized gain (loss) on derivative instruments	**(476)**	(295)	1,195	**124**	(231)
Share-based compensation expense	**(287)**	(339)	(317)	**(1,268)**	(557)
Depletion, depreciation and amortization	**(1,837)**	(1,702)	(1,300)	**(6,433)**	(4,660)
Impairment reversal	**-**	-	-	**4,240**	9,683
Accretion of decommissioning liability	**(92)**	(49)	(52)	**(241)**	(199)
Gain on dispositions	**-**	-	-	**-**	804
Deferred tax expense	**(131)**	-	-	**(131)**	-
Net income	**747**	224	(258)	**5,237**	8,339

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

Share-based compensation

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Share-based compensation:					
Options	**256**	341	334	**1,278**	619
Performance share units (“PSUs”)	**48**	16	-	**64**	-
Total share-based compensation	**304**	357	334	**1,342**	619
Capitalized share-based compensation	**(17)**	(18)	(17)	**(74)**	(62)
Share-based compensation expense	**287**	339	317	**1,268**	557

In Q2 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 (“RSUs”), performance share units (“PSUs”), deferred share units (“DSUs”) and dividend-equivalent rights (collectively, “Awards”). Under the TIP, the maximum number of Common Shares issuable from treasury pursuant to Awards shall not exceed 10% of the total outstanding Common Shares from time to time (on a non-diluted basis) less the number of Common Shares issuable pursuant to all other security-based compensation arrangements of the Company (being the Stock Option Plan).

On August 31, 2022, Tenaz issued 179,500 PSUs to new employees of the Company with a grant date fair value of $1.98 per award. The PSUs are an equity-settled long-term incentive and vest evenly over a period of three service years. The PSUs are subject to a performance factor on the annual vesting date which can be in the range of 0 to 2. This performance factor will be multiplied by the number of PSUs each employee holds at the time of vesting. The performance factor is determined by the Board of Directors based on the Company’s performance during the vesting period. Share-based compensation expense for the PSUs is calculated based on the $1.98 grant date fair value and the number of awards outstanding multiplied by an estimated performance factor of 1.0 that will be realized upon vesting, net of an estimated forfeiture rate of 10%.

Share-based compensation expense was consistent for the quarters presented above. For the full year 2022, share-based compensation increased to $1.3 million, compared to $0.6 million in the prior year. The increases in 2022 are due to increased awards issued to the employees following the recapitalization of Altura in 2021 and the Company’s change in strategy.

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

DD&A for the year-ended 2022 increased 38% as compared to 2021. DD&A expense was up year-over-year due primarily to higher production, as DD&A is calculated using the unit of production method. In addition to higher production, depletion rates per unit also increased for 2022 as compared to 2021. Depletion rates were higher year-over-year due to the combination of the reversal of the previous impairments and the recognition of additional future development costs.

On a per unit basis, DD&A was $13.13 per boe in Q4 2022, compared to $15.14 per boe in Q3 2022 and $13.30 per boe in Q4 2021. For 2022, the DD&A rate was $14.47 per boe compared to $12.58 per boe in 2021. The increase in per unit depletion in 2022 was mainly due to the impairment reversal recorded in Q1 2022 and Q3 2021, as well as modest changes in the estimated future development costs for future activity in Canada, which increased the net asset value subject to depletion relative to the same periods in 2021.

Impairment reversal

In 2022, the Company recognized an impairment reversal of $4.2 million, net of depletion (2021 - $9.7 million).

At March 31, 2022, the significant increases in forecast benchmark commodity prices since the last impairment test at December 31, 2021, were considered indicators of impairment reversal. As a result, a test for impairment reversal was conducted on Tenaz's developed and producing assets included property, plant and equipment in Tenaz's only cash-generating unit ("CGU"), Leduc-Woodbend. The impairment reversal was recognized 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 in Q1 2022, no CGUs had any prior impairments that can be reversed in future periods.

The estimated recoverable amount of the CGU is the greater of (i) its value in use, and (ii) its fair value less cost to sell. The estimated recoverable amount for the Leduc-Woodbend CGU was based on the proved and probable oil and natural gas reserves and related cash flows from Tenaz's December 31, 2021 reserve report prepared by its independent 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 according to its 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. The recoverable amount also accounted for certain undeveloped lands 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 applied 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. The increase in accretion for Q4 2022 and 2022 is mainly due to additional accretion from the Netherlands decommissioning liability acquired prior to year-end 2022.

Unrealized foreign exchange loss

In Q4 2022 and in 2022, the Company had an unrealized foreign exchange loss of $0.4 million due to the translation of euro cash and working capital at December 31, 2022, including €40.9 of million restricted cash held relating to decommissioning security agreements for the Netherlands assets as discussed in the "Capital Resources and Liquidity – Restricted Cash" section. In order to mitigate the foreign exchange exposure, Tenaz entered into a €25.3 million foreign exchange swap which was settled in Q1 2023.

Unrealized gain (loss) on derivative instruments

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

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Commodity contracts	**(48)**	-	1,195	**552**	(231)
Foreign currency swaps	**(428)**	(295)	-	**(428)**	-
Unrealized gain (loss) on derivative instruments	**(476)**	(295)	1,195	**124**	(231)

In Q4 2022, Tenaz entered into fixed price commodity contracts in order to reduce the volatility of crude oil and natural gas sales and entered into a foreign currency swap to mitigate the exchange rate on euro-denominated restricted cash. The foreign currency swap was settled in Q1 2023.

The unrealized derivative loss in Q4 2022 pertains to the differences in the forward price compared to the contract price. The unrealized gain on derivative instruments in 2022 include the maturity of out-of-the money derivative contracts.

The following is a summary of the derivative instruments in place as at December 31, 2022:

Crude oil and natural gas contracts

Period	**Commodity**	**Type of Contract**	**Quantity**	**Pricing Point**	**Contract Price**	**Fair Value at December 31 2022** ($000)
WTI Swap Contracts						
Jan 1/23—Feb 28/23	Crude Oil	Swap	200 bbls/d	WTI	USD $75.00	(86)
Natural Gas Swap Contracts						
Jan 1/23—Feb 28/23	Natural Gas	Swap	1,000 GJ/d	AECO 5A	CAD $5.54	(21)
Natural Gas Collar						
Nov 1/22—Mar 31/23	Natural Gas	Bought put	1,000 GJ/d	AECO 7A	CAD $4.00	23
Nov 1/22—Mar 31/23	Natural Gas	Sold call	1,000 GJ/d	AECO 7A	CAD $7.34	(6)
Derivative instrument liability						**(48)**

Foreign exchange contract

Period	**Type of Contract**	**Notional Amount**	**Notional Amount**	**Average Rate**	**Fair Value at December 31 2022** ($000)
Foreign Currency Swaps					
March 3, 2023	Swap	EUR 25,250,000	CAD 36,332,225	1.4389	(428)
Derivative instrument liability					**(428)**

Income Taxes

The Company's income taxes are detailed in the following table:

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Current	**527**	-	-	**527**	-
Deferred	**131**	-	-	**131**	-
Total income tax expense	**658**	-	-	**658**	-

Current taxes

For the year ended December 31, 2022, Tenaz recorded current income tax expense of $0.5 million (December 31, 2021 – Nil) related to the activity in the Netherlands upstream assets. In the Netherlands, a 50% effective income tax rate is applied to taxable profit from upstream oil and gas activity. In calculating taxable profit, an additional 10% uplift deduction is applied to decrease taxable profit from certain deductions, including operating, general and administrative, depletion and decommissioning costs.

On September 30, 2022, the counsel of the European Union implemented a temporary “solidarity” contribution on excess profits of energy companies. During Q4 2022, the legislation outlining a solidarity contribution of 33%, calculated above a 20% increase in the average yearly taxable profits for 2018 to 2021, became substantively enacted. For the year ended December 31, 2022, Tenaz was subject to the 33% solidarity contribution on profits earned by the acquired legal entity. Income taxes on taxable profits earned after the closing of the Netherlands Acquisition were recorded in net earnings for 2022.

Deferred taxes

At December 31, 2022, Tenaz had recognized a deferred tax liability of $43.3 million (December 31, 2021 – Nil) comprised of a $0.1 million liability related to the Canadian operations and a $43.2 million deferred tax liability on the purchase of the Netherlands upstream gas assets recognized through the purchase price allocation.

Estimated tax pools at the end of the period for the Canadian operations were as follows:

($000)	**December 31 2022**	December 31 2021
Canadian development expenses	**17,793**	12,832
Canadian exploration expenses	**3,133**	3,088
Canadian oil and gas property expenses	**193**	-
Non-capital losses	**28,317**	24,463
Undepreciated capital cost	**7,885**	8,170
Share issue costs	**1,085**	1,447
Canadian tax pools	**58,405**	50,000

At December 31, 2022, Tenaz has Canadian non-capital losses of $28.3 million that expire between 2029 and 2042. There were no non-capital losses carried forward to Tenaz from the Netherlands Acquisition.

Capital Expenditures

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
By classification					
Exploration and evaluation expenditures	**-**	-	-	**-**	80
Property, plant and equipment expenditures	**4,988**	7,882	5,840	**17,101**	10,311
Capital expenditures(1)	**4,988**	7,882	5,840	**17,101**	10,391
By category					
Geological and geophysical	**6**	7	1	**45**	5
Land	**24**	81	232	**307**	452
Drilling and completions	**2,912**	7,086	4,980	**13,410**	7,961
Workovers and recompletions	**180**	4	225	**221**	875
Equipping and tie-in	**674**	510	192	**1,505**	629
Facilities and pipelines	**1,239**	277	118	**1,683**	193
Other	**(47)**	(83)	92	**(70)**	276
Capital expenditures(1)	**4,988**	7,882	5,840	**17,101**	10,391

(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 Q4 2022, Tenaz invested $5.0 million in capital expenditures which primarily related to the completion, equipping and tie-in of the two (1.75 net) horizontal wells at Leduc-Woodbend spud in late September 2022 as well as additional facility and pipeline activities pertaining to the growth of the Leduc-Woodbend field. In 2022, Tenaz invested $17.1 million in capital expenditures which included the drilling, fracing, equipping and tie-in of four (3.50 net) horizontal wells at Leduc-Woodbend, in addition to the tie in of wells drilled in late December 2021.

Acquisitions (Dispositions)

In 2022, Tenaz completed the Netherlands Acquisition as described above, acquiring all of the private company's issued and outstanding shares in exchange for $3.3 million consideration payable to the vendor in early 2023, and based on the private company's surplus working capital as at November 1, 2022. The payable to the vendor was settled in February 2023. As part of the acquisition, excluding the effect of restricted cash which was applied for decommissioning security for the acquired company's decommissioning liability, Tenaz acquired $1.8 million in cash.

During 2021, the Company closed asset dispositions for cash proceeds of $1.75 million for a working interest of 2.75% in the Company's production, wells, lands and facilities at Leduc-Woodbend through staged dispositions. From December 2019 to June 2021, the Company sold a combined 12.5% interest for the Canadian asset.

Decommissioning Liability

At December 31, 2022, Tenaz's decommissioning liability was $30.4 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 and the time frame in which such costs will be incurred, as well as annual inflation factors used to calculate the undiscounted total future liability. The increase in the decommissioning liability resulted from the Netherlands Acquisition on December 20, 2022.

The calculation of decommissioning liability applied the following rates:

	December 31 2022		December 31 2021	
Country	**Inflation**	**Credit-adjusted risk-free rate**	**Inflation**	**Credit-adjusted risk-free rate**
Canada	**1.4%**	**15.1%**	1.7%	8.4%
Netherlands	**2.9%**	**14.7%**	n/a	n/a

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

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

The Company's Liability Management Rating ("LMR") with the Alberta Energy Regulator ("AER") was 7.60 at March 21, 2023 (March 24, 2022 – 6.23). 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 operating demand loan includes a covenant requiring the Company to maintain a Licensee Liability Rating ("LLR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0. Tenaz's LLR with the AER was 7.60 at March 21, 2023, consistent with its LMR.

CAPITAL RESOURCES AND LIQUIDITY

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

($000)	**December 31 2022**	December 31 2021
Current assets	**72,317**	27,499
Current liabilities	**(58,749)**	(7,411)
Net current assets	**13,568**	20,088
Exclude fair value of derivative instruments	**476**	600
Adjusted working capital (net debt)(1)	**14,044**	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 $14.0 million as at December 31, 2022 decreased from $20.7 million at December 31, 2021 primarily due to $17.1 million in capital expenditures, partially offset by $8.6 million of funds flow from operations generated in the year and acquired working capital from the Netherlands Acquisition.

Restricted Cash

At December 31, 2022, Tenaz held restricted cash of €40.9 million ($59.1 million) pledged in support of outstanding letters of credit, which were posted as decommissioning security for Tenaz's interest from the Netherlands Acquisition, pursuant to decommissioning security agreements ("DSA") in place for the offshore licenses. Tenaz acquired €15.6 million of restricted cash as part of the Netherlands Acquisition on December 20, 2022. Concurrently with the close, Tenaz funded the remaining €25.3 million from the Company's expanded Credit Facilities as described below and cash on hand. Prior to closing, Tenaz entered into a foreign currency swap in order to mitigate the foreign exchange exposure of the euro-denominated restricted cash funded with Canadian dollar cash and debt, as described in the MD&A above.

Under the DSAs, decommissioning security is calculated annually and posted by parties to licenses where the future costs of decommissioning are higher than the estimated future cash flows from producing assets. On February 28, 2023, the security required pursuant to the DSAs decreased to €11.8 million. The decrease in the required security was due to several factors that go into the DSA determination, including completed decommissioning activities and higher future cash flows arising from increased natural gas prices in Europe. On March 10, 2023, Tenaz fully repaid the drawn Credit Facilities from the released DSA security funds.

Credit Facilities

Bank debt is comprised of the following:

As at ($000)	**December 31 2022**	December 31 2021
Credit Facilities		
Operating Loan	**6,483**	-
Commercial Term Loan	**8,750**	-
EDC Term Loan	**6,250**	-
Total bank debt	**21,483**	-

At December 31, 2022, Tenaz's credit facilities (the "Credit Facilities") with ATB Financial (the "Lender") consists of:

- a revolving operating demand loan (the "Operating Loan") in the principal amount of up to $10.15 million (December 31, 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 to be held on or before May 31, 2023;
- a non-revolving facility in the principal amount of up to $8.75 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before

April 30, 2023 (the “Commercial Term Loan”). The Commercial Term Loan was repaid in full on March 10, 2023; and

- a non-revolving facility under Export Development Canada’s Program in the principal amount of up to $6.25 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the “EDC Term Loan”). The EDC Term Loan was repaid in full on March 10, 2023.

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

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

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

Tenaz is subject to certain reporting and financial covenants including:

- the Company is required to maintain a working capital ratio of at least 1.00:1, but for the purposes of the covenant, the Credit Facilities drawn and the fair value of any risk management contracts are excluded and the unused portion of the Credit Facilities is added to current assets;
- the Company will maintain a liability management rating (“LMR”) in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0; and
- The Company will, for no less than the period ending February 28, 2023, maintain Hedging Agreements covering 500 boe/d.

At December 31, 2022, Company was in compliance with all debt covenants. The working capital ratio as defined was 2.06:1 (December 31, 2021 – 4.60:1) and the Company was compliant with the LMR covenant (7.10 at January 7, 2023).

Shareholders’ Equity

At December 31, 2022, there were 28,093,174 Common Shares, 2,778,000 warrants, 1,530,500 stock options and 178,000 PSUs outstanding. A summary of the Company's change in Common Shares in 2022 is presented below:

	Number of Common Shares
Balance, December 31, 2021	28,438,074
Exercise of stock options	110,000
Normal course issuer bid	(454,900)
Balance, December 31, 2022	**28,093,174**

Share Repurchases

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a normal course issuer bid (“NCIB”). The NCIB will allow Tenaz to purchase up to 2,619,970 Common Shares (approximately 9.2% of the outstanding Common Shares) over a twelve-month period beginning August 12, 2022 with a daily maximum purchase of 6,108 Common Shares.

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

During the year ended December 31, 2022 Tenaz purchased 454,700 Common Shares under the NCIB for total consideration of $0.8 million. The Common Shares purchased under the NCIB were cancelled following the settlement of the transactions.

($000, except as noted)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Share repurchase activities					
Common Shares repurchased	**(312,200)**	(142,700)	-	**(454,900)**	-
Amounts charged to:					
Share capital	**(710)**	(324)	-	**(1,034)**	-
Retained earnings	**211**	69	-	**280**	-
Share repurchase cost	**(499)**	255	-	**(754)**	-
Average cost per share ($)	**1.60**	1.79	-	**1.66**	-

At March 21, 2023, there were 27,781,674 Common Shares, 2,778,000 warrants, 1,525,000 stock options and 178,000 PSUs outstanding.

Capital Resources and Liquidity

Tenaz has adequate liquidity to fund its budgeted 2023 capital expenditures program through a combination of cash flow from operating activities, available credit facilities and cash on its balance sheet.

Tenaz relies on cash flow from operating activities, cash on its balance sheet and available credit facilities to fund its capital requirements and provide liquidity. Liquidity depends primarily on funds flow from operations, existing credit facilities and the ability to access debt and equity markets.

Tenaz’s acquisition strategy contemplates deploying capital for acquisitions, a portion which could be funded with new equity issuances. Although changing investor sentiment towards the crude oil and natural gas industry may impact Tenaz’s ability to access capital and debt markets, Tenaz’s management remains confident in its strategy and ability to raise funds, if necessary.

At December 31, 2022, the Company has $21.5 million of outstanding bank debt relating to its Credit Facilities, all of which have been repaid in March 2023. At March 21, 2023, the Company has $10.0 million of undrawn Credit Facilities.

SUMMARY OF QUARTERLY RESULTS

Quarters Ended ($000, except per share and per boe amounts)	**Q4 2022**	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Financial								
Petroleum and natural gas sales	**10,852**	7,690	9,344	6,201	5,453	4,717	4,220	3,440
Cash flow from operating activities	**4,809**	1,444	1,936	1,158	373	1,982	763	827
Funds flow from operations(1)	**3,236**	2,280	2,104	992	216	1,349	1,125	809
Per share - basic(1)(3)	**0.11**	0.08	0.07	0.03	0.01	0.12	0.10	0.07
Per share - diluted(1)(3)	**0.11**	0.08	0.07	0.03	0.01	0.12	0.10	0.07
Net income (loss)	**747**	224	769	3,497	(258)	10,105	(532)	(976)
Per share - basic(3)	**0.03**	0.01	0.03	0.12	(0.01)	0.93	(0.05)	(0.09)
Per share - diluted(2)(3)	**0.03**	0.01	0.03	0.12	(0.01)	0.93	(0.05)	(0.09)
Capital expenditures(1)	**4,988**	7,882	3,512	719	5,840	2,614	427	1,510
Adjusted working capital (net debt)(1)	**14,044**	13,887	19,431	20,995	20,688	(3,462)	(2,200)	(4,207)
Common shares outstanding (000)								
End of period - basic(3)	**28,093**	28,405	28,548	28,458	28,438	10,892	10,892	10,892
Weighted average for period - basic(3)	**28,242**	28,520	28,481	28,457	26,069	10,892	10,892	10,892
Weighted average for period - diluted(2)(3)	**28,244**	28,690	29,241	29,361	27,450	10,892	10,892	10,892
Operating								
Average daily production								
Heavy crude oil (bbls/d)	**827**	687	636	515	502	496	528	496
NGLs (bbls/d)	**53**	47	61	62	78	72	57	53
Natural gas (mcf/d)	**3,843**	2,929	2,524	2,579	2,895	2,861	2,543	2,356
Total (boe/d)(4)	**1,520**	1,222	1,117	1,007	1,063	1,045	1,009	942
($/boe)(4)								
Petroleum and natural gas sales	**77.59**	68.39	91,90	68.44	55.78	49.04	45.97	40.59
Royalties	**(11.12)**	(15.23)	(17.11)	(10.38)	(7.10)	(5.53)	(5.15)	(4.45)
Operating expenses	**(21.56)**	(17.04)	(14.47)	(21.02)	(12.20)	(14.44)	(13.96)	(13.16)
Transportation expenses	**(2.60)**	(1.75)	(3.12)	(1.57)	(1.81)	(1.75)	(2.45)	(1.96)
Operating netback(1)	**42.31**	34.37	57.20	35.47	34.67	27.32	24.41	21.02

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(2) Basic weighted average shares are used to calculate diluted per share amounts when the Company is in a loss position.
(3) 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.
(4) 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.

Over the past eight quarters, the Tenaz's petroleum and natural gas sales fluctuated due to volatility in benchmark commodity prices, realized pricing and changes in production. Tenaz's production has fluctuated due to changes in capital expenditures, the Netherlands Acquisition, dispositions, voluntary shut-ins and subsequent reactivations and natural declines.

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

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

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

SELECTED ANNUAL INFORMATION

($000, except per share and per boe amounts)	**2022**	2021	2020
Financial			
Petroleum and natural gas sales	**34,087**	17,830	8,615
Cash flow from operating activities	**9,347**	3,945	2,406
Funds flow from operations(1)	**8,612**	3,499	2,502
Per share – basic(1)(3)	**0.30**	0.24	0.23
Per share – diluted(1)(3)	**0.30**	0.24	0.23
Net income (loss)	**5,237**	8,339	(18,994)
Per share – basic(3)	**0.18**	0.57	(1.74)
Per share – diluted(2)(3)	**0.18**	0.56	(1.74)
Capital expenditures(1)	**17,101**	10,391	7,874
Total assets	**203,901**	75,401	34,439
Total liabilities	**132,530**	10,086	7,869
Adjusted working capital (net debt)(1)	**14,044**	20,688	(1,746)
Common Shares outstanding (000)			
End of period – basic(3)	**28,093**	28,438	10,892
Weighted average for the period – basic(3)	**28,424**	14,718	10,892
Weighted average for the period – diluted(2)(3)	**28,878**	14,876	10,892
Operating			
Average daily production			
Heavy crude oil (bbls/d)	**667**	506	465
Light crude oil & medium crude oil (bbls/d)	**-**	-	6
NGLs (bbls/d)	**56**	65	51
Natural gas (mcf/d)	**2,972**	2,666	2,151
Total (boe/d)(4)	**1,218**	1,015	880
($/boe)(4)			
Petroleum and natural gas sales	**76.67**	48.12	26.74
Royalties	**(13.38)**	(5.60)	(2.03)
Operating expenses	**(18.69)**	(13.43)	(13.27)
Transportation expenses	**(2.29)**	(1.99)	(2.34)
Operating netback(1)	**42.31**	27.10	9.10

(1) Non-GAAP and other financial measure. Refer to "Non-GAAP and Other Financial Measures" included in the "Advisories" section in the MD&A.
(2) Basic weighted average shares are used to calculate diluted per share amounts when the Company is in a loss position.
(3) 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.
(4) 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.

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

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

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

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

Key management personnel compensation

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

($000)	**Year ended December 31, 2022**	Year ended December 31, 2021
Short-term benefits	**2,844**	1,318
Share-based compensation	**1,248**	607
Termination benefits	**-**	220
	4,092	1,742

SUBSEQUENT EVENTS

Reduced DSA security, Restricted Cash released, Foreign currency swap settled and Credit Facilities repaid

On February 28, 2023, the security required pursuant to the DSAs decreased to €11.8 million resulting in the release of €29.1 million of restricted funds held and the settlement of the foreign currency swap in early March 2023. On March 10, 2023, Tenaz repaid the drawn Credit Facilities from the released restricted funds.

ACCOUNTING STANDARDS, CHANGE IN ACCOUNTING POLICIES AND PRONOUNCEMENTS

Tenaz's audited consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. Tenaz did not adopt any new accounting pronouncements as at December 31, 2022.

A summary of significant accounting policies can be found in Note 3 to the annual consolidated financial statements for the year ended December 31, 2022.

Future Accounting Pronouncements

Tenaz plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2023. The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the Financial Statements.

Amendments to IAS 12 Income Taxes

In May 2021, the IASB issued amendments to IAS 12 *Income Taxes*, which require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. This will be effective on January 1, 2023.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued the new insurance contracts standard IFRS 17 *Insurance Contracts*, introducing a single measurement model based on a current fulfillment value and revenue recognition principle to reflect services provided. This will be effective on January 1, 2023.

Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS *1 Presentation of Financial Statements* ("IAS 1"), to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. This will be effective on January 1, 2024.

In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. This will be effective on January 1, 2024.

CRITICAL ACCOUNTING ESTIMATES

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

A summary of Tenaz's critical judgments, estimates and assumptions can be found in Note 5 to the annual consolidated financial statements for the year ended December 31, 2022, which includes:

- Crude oil, condensate, natural gas, and natural gas liquids reserve estimation;
- Recoverability of asset carrying amounts;
- Nature of crude oil and natural gas investments;
- Determination of exploration and evaluation assets;
- Determination of provisions and contingent liabilities;
- Determination of decommissioning liabilities;
- Determination of share-based compensation;
- Determination of income taxes;
- Determination of business combinations; and
- Determination of significant influence of associated entity.

RISK FACTORS AND RISK MANAGEMENT

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

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

See “Forward-Looking Information” in this MD&A and “Risk Factors” in Tenaz's most recently filed AIF information, available on SEDAR at www.sedar.com, for additional information.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures (DC&P)

As of December 31, 2022, Tenaz conducted evaluation of the effectiveness of Tenaz’s DC&P as defined in Canada by National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings* ("NI 52-109"). Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that Tenaz files or submits under securities legislation is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms therein. DC&P include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by Tenaz in the reports that it files or submits under securities legislation is accumulated and communicated to Tenaz’s management as appropriate to allow timely decisions regarding the required disclosure.

Internal Control over Financial Reporting ("ICFR")

ICFR is a set of processes designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized, and facilitate the preparation of relevant, reliable, and timely information. Because of its inherent limitations, ICFR may not prevent or detect misstatements. Management has assessed the effectiveness of Tenaz’s ICFR as defined in Canada by NI 52-109. The assessment was based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that Tenaz’s ICFR was effective as of December 31, 2022. No changes were made to Tenaz’s ICFR during the year ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the ICFR.

Tenaz has limited the scope of DC&P and ICFR to exclude controls, policies and procedures of the private U.S. corporation acquired through the Netherlands Acquisition on December 20, 2022. The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit the design of DC&P and ICFR to exclude controls, policies, and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

The table below presents the summary financial information of the private U.S. corporation acquired through the Netherlands Acquisition included in Tenaz's financial statements as at and for the year ended December 31, 2022:

As at ($000)	**December 31** **2022**
Total assets	**138,334**
Total liabilities	**(137,598)**

($000)	**Year ended** **December 31, 2021**
Petroleum and natural gas sales, net of royalties	**2,052**
Operating expense	**(642)**
Transportation expense	**(48)**
Operating netback(1)	**1,362**
Net income	**736**

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

ADVISORIES

Non-GAAP and Other Financial Measures

This MD&A and quarterly report contains the terms funds flow from operations and capital expenditures 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

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 settling liabilities. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Funds flow from operations is not intended to represent cash flows from operating activities calculated in accordance with IFRS. A summary of the reconciliation of cash flow from operating activities to funds flow from operations, is set forth below:

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Cash flow from operating activities	**4,809**	1,444	**373**	**9,347**	3,945
Change in non-cash operating working capital	**(1,829)**	836	**(157)**	**(991)**	(446)
Decommissioning liabilities settled	**256**	-	**-**	**256**	-
Funds flow from operations	**3,236**	2,280	**216**	**8,612**	3,499

Capital Expenditures

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

($000)	**Q4 2022**	Q3 2022	Q4 2021	**2022**	2021
Exploration and evaluation expenditures	**-**	-	-	**-**	80
Property, plant and equipment expenditures	**4,988**	7,882	5,840	**17,101**	10,311
Capital expenditures	**4,988**	7,882	5,840	**17,101**	10,391

Non-GAAP Financial Ratio

Operating Netback

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

Capital Management Measure

Adjusted working capital (net debt)

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

Supplementary Financial Measures

"**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 flow from operations divided by basic weighted average Common Shares.

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

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

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

"**Realized natural gas liquids price**" is comprised of 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", “guidance”, "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", “potential”, "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A and quarterly report contains forward-looking information and statements pertaining to: the TIP and Awards thereunder; the NCIB and expected share buybacks thereunder; Tenaz’s capital plans; activities and budget for 2022 and 2023, and our anticipated operational and financial performance; expected well performance; expected economies of scale; forecasted average production volumes and capital expenditures for 2022 and 2023; the ability to grow our assets domestically and internationally; statements relating to a potential CCS project; and the Company’s strategy.

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

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

MANAGEMENT’S REPORT

Management’s Responsibility for the Financial Statements

The annual consolidated financial statements of Tenaz Energy Corp. as at and for the years ended December 31, 2022 and 2021 were prepared by management within acceptable limits of materiality and are in accordance with International Financial Reporting Standards. Management is responsible for the integrity, consistency, objectivity and reliability of the consolidated financial statements.

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

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

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable, and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the internal control over financial reporting for Tenaz Energy Corp. The assessment was based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's internal control over financial reporting was effective as of December 31, 2022.

/s/ Anthony Marino
President and Chief Executive Officer

/s/ Bradley Bennett
Chief Financial Officer

March 21, 2023
Calgary, Alberta

KPMG LLP
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tenaz Energy Corp.,

Opinion

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

- the consolidated balance sheets as at December 31, 2022 and December 31, 2021
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years ended then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2022 and December 31, 2021 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Description of the matter

We draw attention to note 3, note 5 and note 10 to the financial statements. The Entity uses estimated proved and probable oil and gas reserves to deplete its developed and producing assets included in PP&E, to assess for indicators of impairment or impairment reversal on each of the Entity's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU. The Entity has $104.3 million of PP&E as at December 31, 2022. The Entity depletes its net carrying value of developed and producing assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. Depletion and depreciation expense was $6.4 million for the year ended December 31, 2022. The Entity identified an indicator of impairment reversal at March 31, 2022 in the Leduc-Woodbend CGU and performed an impairment test to estimate the recoverable amount of the CGU. The Entity recorded an aggregate impairment reversal of $4.2 million for the year ended December 31, 2022.

The estimated recoverable amount of the Leduc-Woodbend CGU involved significant estimates, including:

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

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

- Forecasted oil and gas commodity prices
- Forecasted production
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engaged independent third-party reserve evaluators to estimate proved and probable oil and gas reserves. For purposes of the March 31, 2022 impairment test, the Entity's internal reserve evaluators updated the significant assumptions from the independent third party reserve evaluators estimate of proved and probable oil and gas reserves as at December 31, 2021.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

We assessed the depletion expense calculation for compliance with IFRS as issued by the IASB.

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

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2022 actual production, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We evaluated the appropriateness of forecasted production and forecasted operating costs, royalty costs and future development costs assumptions by comparing to 2022 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.
- We compared the proved and probable oil and gas reserves as at December 31, 2022 to the internal proved and probable oil and gas reserves as at March 31, 2022. We took into account changes in conditions and events affecting the internal proved and probable oil and gas reserves as at March 31, 2022.

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

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

Assessment of the impact of estimated proved and probable oil and gas reserves on the preliminary estimated acquisition-date fair value of developed and producing assets acquired (the "Acquired D&P") in the private United States (U.S.) company acquisition

Description of the matter

We draw attention to note 3, note 5 and note 7 to the financial statements. On December 20, 2022 ("the acquisition-date"), the Entity acquired 100% of the issued and outstanding shares of a private U.S. Entity with upstream and midstream assets located in the Netherlands. In connection with the acquisition, the Entity recorded developed and producing assets with a preliminary estimated acquisition-date fair value of $42.5 million. The preliminary estimated acquisition-date fair value of the Acquired D&P involves significant estimates, including proved and probable oil and gas reserves and the discount rates.

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

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

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

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on the preliminary estimated acquisition-date fair value of the Acquired D&P as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves and the discount rates.

How the matter was addressed in the audit

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

With respect to the estimate of proved and probable oil and gas reserves associated with the Acquired D&P as at December 31, 2022:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Entity
- We compared the forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We evaluated the appropriateness of forecasted production and forecasted operating costs by comparing to 2022 actual results. We took into account changes in conditions and events affecting the Acquired PP&E to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

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

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 21, 2023

CONSOLIDATED BALANCE SHEETS
As at

($000)	Note	**December 31 2022**	December 31 2021
ASSETS			
Current assets			
Cash and cash equivalents		**1,832**	25,470
Restricted cash	6	**59,091**	-
Accounts receivable	18	**10,251**	1,777
Prepaid expenses and deposits		**1,099**	252
Derivative instruments	18	**44**	-
		72,317	27,499
Exploration and evaluation assets	9	**14,706**	-
Property, plant and equipment	10	**104,275**	47,902
Right-of-use assets		**12**	-
Investment in associate	11	**12,591**	-
Total assets		**203,901**	75,401
LIABILITIES			
Current liabilities			
Bank debt	12	**21,483**	-
Accounts payable and accrued liabilities		**14,396**	6,750
Current portion of lease liabilities	13	**66**	61
Taxes payable	17	**22,284**	-
Derivative instruments	18	**520**	600
		58,749	7,411
Lease liabilities	13	**59**	106
Decommissioning liability	14	**30,435**	2,569
Deferred taxes	17	**43,287**	-
Total liabilities		**132,530**	10,086
SHAREHOLDERS' EQUITY			
Share capital	15	**63,831**	64,503
Warrants	15	**3,203**	3,203
Contributed surplus		**8,871**	7,661
Deficit		**(4,534)**	(10,052)
Total shareholders' equity		**71,371**	65,315
Total liabilities and shareholders' equity		**203,901**	75,401

Subsequent events	6,7,12,18,23

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

/s/ Anna Alderson	/s/ Anthony Marino
Director	Director

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended December 31

($000, except per share amounts)	Note	**2022**	2021
REVENUE			
Petroleum and natural gas sales	16	**34,087**	17,830
Royalties		**(5,947)**	(2,076)
Petroleum and natural gas revenue		**28,140**	15,754
EXPENSES			
Operating		**8,308**	4,978
Transportation		**1,020**	737
General and administrative		**5,056**	2,273
Transaction costs	7	**2,684**	1,245
Interest and financing, net of income		**99**	291
Foreign exchange gain		**(324)**	-
Loss on derivative instruments	18	**1,700**	2,962
Share-based compensation	15	**1,268**	557
Depletion, depreciation and amortization	10	**6,433**	4,660
Impairment and impairment reversal	9,10	**(4,240)**	(9,683)
Accretion of decommissioning liability	14	**241**	199
Gain on dispositions	8	**-**	(804)
Total expenses		**22,245**	7,415
Net income before income taxes		**5,895**	8,339
Provision for income taxes			
Current	17	**527**	-
Deferred	17	**131**	-
Total income taxes		**658**	-
Net income and comprehensive income		**5,237**	8,339
Net income per share			
Basic	15	**0.18**	0.57
Diluted	15	**0.18**	0.56

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31

($000)	Note	Share capital	Warrants	Contributed surplus	Deficit	Total Equity
Balance, January 1, 2021		37,712	-	7,249	(18,391)	26,570
Issued on recapitalization transaction	15	29,500	-	-	-	29,500
Allocation to warrants	15	(3,203)	3,203	-	-	-
Issued on rights offering	15	1,832	-	-	-	1,832
Share issue costs	15	(1,808)	-	-	-	(1,808)
Exercise of stock options	15	470	-	(173)	-	297
Repurchase of stock options	15	-	-	(34)	-	(34)
Share-based compensation expense	15	-	-	557	-	557
Share-based compensation capitalized	15	-	-	62	-	62
Net income for the year		-	-	-	8,339	8,339
Balance, December 31, 2021		**64,503**	**3,203**	**7,661**	**(10,052)**	**65,315**
Balance, December 31, 2021		64,503	3,203	7,661	(10,052)	65,315
Exercise of stock options	15	363	-	(132)	-	231
Normal course issuer bid	15	(1,035)	-	-	281	(754)
Share-based compensation expense	15	-	-	1,268	-	1,268
Share-based compensation capitalized	15	-	-	74	-	74
Net income for the year		-	-	-	5,237	5,237
Balance, December 31, 2022		**63,831**	**3,203**	**8,871**	**(4,534)**	**71,371**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

($000)	Note	**2022**	2021
OPERATING ACTIVITIES			
Net income		**5,237**	8,339
Items not involving cash:			
Share-based compensation	15	**1,268**	557
Depletion, depreciation and amortization	10	**6,433**	4,660
Impairment and impairment reversal	9,10	**(4,240)**	(9,683)
Accretion of decommissioning liability	14	**241**	199
Unrealized foreign exchange gain		**(334)**	-
Unrealized (gain) loss on derivative instruments	18	**(124)**	231
Gain on dispositions	8	**-**	(804)
Deferred taxes	17	**131**	-
Decommissioning liabilities settled	14	**(256)**	-
Change in non-cash working capital	20	**991**	446
Cash flow from operating activities		**9,347**	3,945
INVESTING ACTIVITIES			
Exploration and evaluation asset expenditures	9	**-**	(80)
Property, plant and equipment expenditures	10	**(17,101)**	(10,311)
Cash acquired in acquisition	7	**1,812**	-
Restricted cash for security arrangements	6	**(36,506)**	-
Dispositions	8	**-**	1,750
Change in non-cash working capital	20	**(2,096)**	4,403
Cash flow used in investing activities		**(53,891)**	(4,238)
FINANCING ACTIVITIES			
Advance (repayment) of bank debt	12	**21,483**	(3,985)
Normal course issuer bid	15	**(754)**	-
Issuance of common shares, net of issue costs	15	**-**	29,524
Proceeds from the exercise of stock options	15	**231**	297
Repurchase of stock options	15	**-**	(34)
Principal payments on lease liabilities	13	**(54)**	(39)
Cash flow from financing activities		**20,906**	25,763
CHANGE IN CASH AND CASH EQUIVALENTS		**(23,638)**	25,470
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**25,470**	-
CASH AND CASH EQUIVALENTS, END OF YEAR		**1,832**	25,470
Cash interest paid		**359**	291

See accompanying notes to the 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. Tenaz has domestic operations in Canada along with offshore natural gas assets in the Netherlands. The domestic operations consist of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. The Netherlands natural gas assets are located in the Dutch sector of the North Sea. Tenaz is the corporation resulting from the amalgamation of Tenaz Energy Corp. and Altura Energy Inc. on October 15, 2021 under the *Business Corporations Act* (Alberta) ("ABCA"). The Company is headquartered in Calgary with its shares 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") (Note 15).

Share Consolidation

On October 7, 2021, shareholders of the Company approved the Company to consolidate the number of Common Shares. The share consolidation was effected on December 23, 2021 on a 10-to-1 basis. The numbers of shares, warrants and options outstanding have been adjusted on a retroactive basis.

2. BASIS OF PRESENTATION

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

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

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

Beginning December 20, 2022, Tenaz commenced business in the Netherlands through a wholly-owned subsidiary acquired (Note 7) with a Euro functional currency. Tenaz's subsidiaries include entities in each of the jurisdictions that Tenaz operates as described in Note 3 (Segmented information), including Canada and the Netherlands.

Tenaz has the following subsidiaries, each owned 100% percent, at December 31, 2022:

Name of subsidiary	Jurisdiction
1880675 Alberta Ltd.(1)	Alberta, Canada
Tenaz Energy Holdings (Canada) Corp.(2)	Alberta, Canada
Tenaz Energy (US) LLC(3)	Delaware, United States

(1) On January 1, 2023, amalgamated with Tenaz Energy Corp.
(2) Incorporated on December 12, 2022.
(3) On December 20, 2022, U.S private corporation acquired and renamed "Tenaz Energy (US) LLC" (Note 7). On January 30, 2023, Tenaz Energy (US) LLC migrated and continued as a Luxembourg private limited liability company, renamed "Tenaz Energy Netherlands Offshore S.A.R.L".

The preparation of financial statements requires management to use judgments, estimates, and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated. Significant estimates and judgments used in the preparation of the Financial Statements are detailed in Note 5.

These financial statements were authorized for issue by Tenaz's board of directors (the "Board") on March 21, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are further categorized using a three-level hierarchy that reflects the significance of the lowest level of inputs used in determining fair value:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At each reporting date, Tenaz determines whether transfers have occurred between levels in the hierarchy. The level of classification for each financial asset and financial liability measured or disclosed at fair value in the financial statements is reassessed based on the lowest level of input that is significant to the fair value measurement as a whole. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

Financial instruments

Classification and measurement of financial instruments

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

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

Amortized Cost

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

FVTPL

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

Impairment of financial assets

Impairment of financial assets carried at amortized cost is determined by measuring the assets' expected credit loss ("ECL"). Accounts receivable are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable and if credit risk increases significantly since initial recognition, a further lifetime ECL is required to be recognized. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection.

The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized as an impairment of financial assets in net income.

Based on industry experience, the Company considers its commodity sales and joint interest accounts receivable to be in default when the receivable is more than 90 days past due. Once the Company has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, Tenaz derecognizes the gross carrying amount of the financial asset and the associated allowance from the consolidated balance sheets.

Derecognition of financial liabilities

If an amendment to a contract or agreement comprises a substantial modification, Tenaz will derecognize the existing financial liability and recognize a new financial liability, with the difference recognized as a gain or loss in net income. To determine whether a modification is substantial, Tenaz performs quantitative and qualitative tests. Quantitatively, if the present value of the cash flows under the new terms is at least 10 per cent different than the remaining cash flows of the original liability, the modification is deemed to be substantial. Qualitatively, the change is evaluated based on its impact to the economic risk associated with the liability and would be specific to the contract.

If the modification results in the derecognition of a liability any associated fees are recognized as part of the gain or loss. If the modification is not deemed to be substantial, any associated fees adjust the liability's carrying amount and are amortized over the remaining term.

Cash and cash equivalents

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

Capitalization of exploration and development costs

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

Exploration and Evaluation ("E&E") Assets

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

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

Property, plant and equipment

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

Business combinations

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

Impairment of Non-Financial Assets

PP&E

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

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

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

E&E

E&E assets are assessed for impairment at the CGU level and are reviewed at each reporting date for indicators of potential impairment, or in the case of previously impaired E&E assets, reversal of impairment. An impairment charge on E&E assets is recognized if the carrying value of the E&E assets exceeds the recoverable amount. Impairment of E&E assets is recognized in net income as impairment of E&E.

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

Investments in associates

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

Leases and Right-of-use assets

As lessee, Tenaz recognizes an ROU asset and a corresponding lease liability on the balance sheets on the date that a leased asset becomes available for use. Interest expense associated with the lease liability is recognized over the lease period with a corresponding increase to the underlying lease liability. ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation charges on ROU assets are recognized in net income as DD&A. Where appropriate, depreciation charges to ROU assets may be capitalized as additions to either E&E or PP&E.

ROU assets and lease liabilities are initially measured on a present value basis. Lease liabilities are measured at the net present value of the lease payments which may include: fixed lease payments, variable lease payments based on an index or a rate, and amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option, if Tenaz is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease liability, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

ROU assets and lease liabilities are remeasured when there is a modification to the underlying contract terms, a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase extension or termination option.

In cases where the leased asset is used in the Company's jointly controlled operations, Tenaz, as the operator, is the obliger to the lessor and presents the full amount of the lease liability and ROU asset at the commencement date of the lease. Certain payments relating to the Company's lease liability may be recovered over time in accordance with billings for each partner's proportionate interest in the joint operation and are recognized in net income.

Short-term leases and leases of low-value assets are not recognized on the balance sheets and lease payments are instead recognized in net income as incurred. For certain classes of leases, Tenaz may not separate lease and non-lease components, accounting for these leases as a single lease component.

Dispositions

When assets are disposed, the proceeds from disposal are compared to the carrying amount of the assets held for sale. When the proceeds from disposal exceed the carrying amount, a gain on disposal, or reversal of previously recognized impairment, is recognized separately in net income.

Exchanges of assets are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reasonably measured, in which case the assets are measured at the carrying value of the asset being disposed.

Decommissioning liabilities

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

Provisions and Contingent Liabilities

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

A provision for onerous contracts is recognized when the expected economic benefits to be derived by Tenaz from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost of the remaining term of the contract. Before a provision is established, Tenaz first recognizes any impairment charge on assets associated with the onerous contract.

A contingent liability is disclosed when Tenaz has a possible obligation arising from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly under its control, or when Tenaz has a present obligation that arises from past events but have not yet been recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured reliably.

Share capital

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

Revenue recognition

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

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

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

Depletion, depreciation and amortization

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

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

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

Share-based compensation

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

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

Income taxes

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

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

Government Grants

Government grants are recognized when there is reasonable assurance that Tenaz will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in net income. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

Joint Arrangements

Tenaz may conduct its crude oil and natural gas production activities through jointly controlled operations and the financial statements reflect only Tenaz's proportionate interest in such activities. Joint control exists for contractual arrangements governing Tenaz's assets whereby Tenaz has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. Tenaz does not have any joint arrangements that are individually material to the Company or that are structured through joint venture arrangements.

Per share amounts

Basic net income per share is calculated by dividing net income by the weighted average number of Common Shares outstanding during the period.

Diluted net income per share is calculated by adjusting the weighted average number of Common Shares outstanding for the dilutive Common Shares related to the Company's share-based compensation plans and warrants which could have a dilutive impact on net income during the year. The number of shares included is computed using the treasury stock method, whereby the Common Shares are assumed to be purchased at the average market price.

Diluted net income per share is calculated by dividing net income by the diluted weighted-average number of Common Shares outstanding during the period. The diluted weighted-average number of shares outstanding is the sum of the basic weighted-average number of shares outstanding and (to the extent inclusion reduces diluted net earnings per share) the number of shares issuable for equity-settled awards and warrants determined using the treasury stock method, whereby the Common Shares are assumed to be purchased at the average market price during the period.

Foreign currency translation

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

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

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

Segmented information

Tenaz has a business unit structure designed to manage assets in each country in which the Company operates. Tenaz's operating segments derive its revenues solely from the production and sale of petroleum and natural gas. Tenaz has two key operating segments: Canadian business unit and the Netherlands business unit.

Tenaz's Canadian business unit includes costs incurred at the Company's corporate head office located in Calgary, Alberta, Canada.

4. CHANGES IN ACCOUNTING POLICIES

Future Accounting Pronouncements

Tenaz plans to adopt the following amendments to accounting standards, issued by the IASB, that are effective for annual periods beginning on or after January 1, 2023. The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the Financial Statements.

Amendments to IAS 12 Income Taxes

In May 2021, the IASB issued amendments to IAS 12 *Income Taxes*, which require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. This will be effective on January 1, 2023.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued the new insurance contracts standard IFRS 17 *Insurance Contracts*, introducing a single measurement model based on a current fulfillment value and revenue recognition principle to reflect services provided. This will be effective on January 1, 2023.

Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS *1 Presentation of Financial Statements* ("IAS 1"), to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. This will be effective on January 1, 2024.

In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. This will be effective on January 1, 2024.

5. MANAGEMENT JUDGMENTS AND ESTIMATION UNCERTAINTY

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

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

There are a number of inherent uncertainties associated with estimating reserves. Reserve estimates are based on engineering data, forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs and future development costs, all of which are subject to many uncertainties, interpretations, and judgments. Estimates reflect market and regulatory conditions existing at December 31, 2022 and 2021, which could differ significantly from other points in time throughout the year, or future periods. Tenaz's reserves have been evaluated by an independent, qualified reserve evaluator. The key assumptions include forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs, and future development costs.

Recoverability of asset carrying amounts

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

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

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

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

Nature of crude oil and natural gas investments

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

E&E assets

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

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the reserves is technically feasible and commercially viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have E&E assets remain classified as such for several years while additional E&E activities are carried out or the Company seeks government, regulatory, or internal approval for development plans. E&E assets are subject to ongoing management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When management is making this assessment, changes to project economics, expected capital investments and production costs, results of other operators in the region, and access to infrastructure are important factors which are considered.

Provisions and contingent liabilities

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

Decommissioning liabilities

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

Share-based compensation

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

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

Income taxes

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

Business combinations

Management judgment may be required to determine the fair value of the acquired entity. The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of PP&E using a fair value less cost of disposal model generally require significant judgment and estimation including cash flows associated with the proved and probable oil and gas reserves and discount rate. Management judgment is also required in determining the fair value of the E&E assets, investments in associated entities, decommissioning liabilities associated with the properties, the ROU assets and associated lease obligations and other assets or liabilities.

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

Determination of significant influence of associated entity

The accounting for an investment as an associate where the Company holds, directly or indirectly, less than 20% of the voting power of the investee requires management judgment in determining whether the Company has significant influence. In making this determination, management considers the Company's participation in policy-making processes and voting arrangements of the investee.

6. RESTRICTED CASH

At December 31, 2022, Tenaz's restricted cash of $59.1 million consists of €40.9 million cash which was pledged as decommissioning security (in the form of letters of credit) for Tenaz's interests in Tenaz NL (Note 7), pursuant to decommissioning security agreements ("DSA") in place for the offshore licenses. Tenaz acquired €15.6 million ($22.2 million) of restricted cash as part of the Tenaz NL acquisition on December 20, 2022 (Note 7). Concurrently with closing, Tenaz funded the remaining €25.3 million from the Company's expanded Credit Facilities (Note 12). Prior to closing, Tenaz entered into a foreign currency swap in order to mitigate the foreign exchange exposure of the euro-denominated restricted cash funded with Canadian dollar debt (Note 18).

Under the DSA, decommissioning security is calculated annually and posted by parties to licenses where the future costs of decommissioning are higher than the future cash flows from producing assets. On February 28, 2023, the security required pursuant to the DSAs decreased to €11.8 million. The decrease in the required security was due to several factors that go into the DSA determination, including completed decommissioning activities and increased natural gas prices in Europe. On March 10, 2023, Tenaz fully repaid the drawn Credit Facilities from the released DSA security funds.

7. BUSINESS COMBINATION

Acquisition of private company with Netherlands upstream and midstream assets

On December 20, 2022, pursuant to a Share Purchase Agreement ("SPA"), Tenaz completed the acquisition of 100% of the issued and outstanding shares of a private U.S. company with Netherlands upstream and midstream assets (the "Acquisition"). The Netherlands natural gas assets are located in the Dutch sector of the North Sea. The acquired company also has an ownership interest in Noordgastransport B.V. ("NGT") which holds one of the largest gas gathering and processing networks in the Dutch North Sea. The business combination was recognized in accordance with IFRS 3 *Business Combinations* using the acquisition method.

On acquisition, the private U.S. company was converted to a U.S. limited liability company and continued as Tenaz Energy (US) LLC and on January 30, 2023 migrated and continued as a Luxembourg private limited liability company, renamed "Tenaz Energy Netherlands Offshore S.A.R.L." ("Tenaz NL").

Pursuant to the SPA, Tenaz acquired all of the private company's issued and outstanding shares in exchange for $3.3 million consideration payable to the vendor in early 2023, and based on the private company's surplus working capital as at November 1, 2022. The payable to the vendor was settled in February 2023.

Preliminary purchase price allocation

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

($000)	**December 20, 2022**
Identifiable net assets	
Cash acquired	1,812
Restricted cash	22,585
Accounts receivables	4,956
Exploration and evaluation assets	14,706
Property, plant and equipment – Developed and producing assets	42,522
Investment in NGT (Note 11)	12,591
Accounts payable and accrued liabilities	(1,993)
Income taxes payable	(21,757)
Decommissioning liabilities	(29,012)
Deferred tax liability	(43,156)
Total identifiable net assets	**3,254**
Consideration	
Payable to vendor for surplus working capital	3,254
Total consideration	**3,254**

The above preliminary purchase price allocation is based on management's best estimate at the time of the preparation of these Financial Statements. Given the complexity of the Acquisition, the valuation of the Tenaz NL business and associated purchase price allocation is not final as Tenaz is continuing to obtain and verify information required to determine the fair value of certain assets and liabilities and the amount of deferred taxes arising on their recognition, including property plant and equipment, exploration and evaluation assets and taxes as well as finalization of working capital adjustments. Upon finalizing the value of the net assets acquired, liabilities assumed and total consideration, adjustments may be required as values subject to estimate are finalized, including the finalization of income taxes for working capital adjustments affecting consideration.

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

If the business combination had occurred on January 1, 2022, pro forma revenue and operating netback (revenue less operating and transportation expense) were estimated to be approximately $81.2 million and $67.4 million, respectively, for the year ended December 31, 2022. However, these estimates may not be representative of the actual results if combined on January 1, 2022.

Included in Tenaz's consolidated results for the year ended December 31, 2022 is $2.1 million of revenue and $1.4 million of operating netback, respectively.

For the year ended December 31, 2022, Tenaz incurred transaction costs of $0.9 million and $1.8 million in conjunction with the Acquisition and the terminated SDX Energy Plc transaction, respectively, all of which have been expensed in net income.

8. DISPOSITIONS

On June 15, 2021, Tenaz closed the final working interest disposition pursuant to a definitive agreement that was signed on December 31, 2019 and amended on June 26, 2020 and January 22, 2021 with an unrelated third party. Three dispositions closed in 2021 and the details are included below:

			Allocation of Proceeds			
Disposition date	**Working Interest (%)**	**Cash Proceeds ($000)**	**D&P Asset Dispositions ($000)**	**E&E Asset Dispositions ($000)**	**Decommis-sioning liability ($000)**	**Gain on disposition ($000)**
2021						
January 29, 2021	0.6875	438	(252)	(2)	15	199
April 27, 2021	0.6875	437	(251)	(2)	18	202
June 15, 2021	1.3750	875	(503)	(4)	35	403
Total	**2.7500**	**1,750**	**(1,006)**	**(8)**	**68**	**804**

9. EXPLORATION AND EVALUATION

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

($000)	**Total**
Balance, December 31, 2020	260
Additions	80
Change in decommissioning costs (Note 18)	6
Dispositions (Note 14)	(8)
Impairment	(338)
Balance, December 31, 2021	-
Acquisition (Note 7)	14,706
Balance, December 31, 2022	**14,706**
Netherlands	**14,706**

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

Impairment

2021

For the year ended December 31, 2021, the Company determined that indicators of impairment existed with respect to its E&E assets, which are all in the Entice area, and Tenaz recognized an impairment charge of $0.3 million on E&E assets. The estimated recoverable amount for the Entice E&E assets was $nil.

10. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Tenaz's PP&E:

($000)	Developed and Producing Assets	Corporate Assets	Total
Cost			
Balance, December 31, 2020	65,373	203	65,576
Additions	10,273	38	10,311
Share-based compensation	62	-	62
Dispositions	(2,044)	-	(2,044)
Change in decommissioning costs (Note 7)	302	-	302
Balance, December 31, 2021	73,966	241	74,207
Additions	17,065	36	17,101
Acquisition (Note 7)	42,522	-	42,522
Share-based compensation (Note 15)	74	-	74
Decommissioning cost additions and change in estimates (Note 7)	(1,131)	-	(1,131)
Balance, December 31, 2022	**132,496**	**277**	**132,773**
Depletion, depreciation, amortization and impairment ($000)			
Balance, December 31, 2020	(32,596)	(108)	(32,704)
Depletion and depreciation	(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 and depreciation	(6,404)	(29)	(6,433)
Impairment reversal	4,240	-	4,240
Balance, December 31, 2022	**(28,332)**	**(166)**	**(28,498)**
Carrying amounts ($000)			
As at December 31, 2021	47,798	104	47,902
Canada	47,798	104	47,902
As at December 31, 2022	**104,164**	**111**	**104,275**
Canada	**61,645**	**111**	**61,645**
Netherlands	**42,519**	**-**	**42,519**

Estimated future development costs of $111.7 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 calculations. In the year ended December 31, 2022, Tenaz capitalized cash and administrative costs (recoveries) directly attributable to property and equipment of $0.4 million which are included in the additions above (2021 – $0.3 million).

At December 31, 2022, the Company has not identified any indicators of impairment.

Impairment reversal

March 31, 2022

At March 31, 2022, the significant increases in forecast benchmark commodity prices since the last impairment test at December 31, 2021, were considered indicators of impairment reversal. As a result, a test for impairment reversal was conducted on Tenaz's D&P assets in Tenaz's Leduc-Woodbend CGU (Canada). In 2022, the Company recognized an impairment reversal of $4.2 million, net of depletion (2021 - $10.0 million) due to the estimated recoverable amount of $51.1 million, using value in use, exceeding the carrying amount of these assets. Subsequent to the impairment reversal, no CGUs had any prior impairments that can be reversed in future periods.

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%/year	+2.0%/year	+2.0%/year	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.

11. INVESTMENT IN ASSOCIATE

Tenaz has the following associate at December 31, 2022:

Name of associate	% Interest held	Jurisdiction
Noordgastransport B.V.	11.34%	Netherlands

Although Tenaz holds less than 20% of the equity shares of NGT at December 31, 2022, the Company exercises significant influence by virtue of shareholder co-operation agreements, including voting blocks.

The following table reconciles the investment in associate:

($000)	Total
Balance, December 31, 2021	-
Acquisition (Note 7)	12,591
Balance, December 31, 2022	12,591

At December 31, 2021, NGT had total assets and liabilities of approximately €135 million and €95 million respectively.

12. BANK DEBT

Bank debt is comprised of the following:

As at ($000)	December 31 2022	December 31 2021
Credit Facilities		
Operating Loan	**6,483**	-
Commercial Term Loan	**8,750**	-
EDC Term Loan	**6,250**	-
Total bank debt	**21,483**	-

At December 31, 2022, Tenaz's credit facilities (the "Credit Facilities") with ATB Financial (the "Lender") consists of:

- a revolving operating demand loan (the "Operating Loan") in the principal amount of up to $10.15 million (December 31, 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 to be held on or before May 31, 2023;
- a non-revolving facility in the principal amount of up to $8.75 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the "Commercial Term Loan"). The Commercial Term Loan was repaid in full on March 10, 2023; and
- a non-revolving facility under Export Development Canada's Program in the principal amount of up to $6.25 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the "EDC Term Loan"). The EDC Term Loan was repaid in full on March 10, 2023.

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

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

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

Tenaz is subject to certain reporting and financial covenants including:

- the Company is required to maintain a working capital ratio of at least 1.00:1, but for the purposes of the covenant, the Credit Facilities drawn and the fair value of any risk management contracts are excluded and the unused portion of the Credit Facilities is added to current assets;
- the Company will maintain a liability management rating ("LMR") in Alberta, Saskatchewan and British Columbia, in each case, of no less than 2.0; and
- The Company will, for no less than the period ending February 28, 2023, maintain Hedging Agreements covering 500 boe/d.

At December 31, 2022, Company was in compliance with all debt covenants. The working capital ratio as defined was 2.03:1 and the Company was compliant with the LMR covenant (7.10 at January 7, 2023).

13. 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
Additions	12
Lease interest	8
Total cash outflow	(62)
Balance, December 31, 2022	**125**
Current lease liabilities	66
Non-current lease liabilities	59

Tenaz has the following future commitments:

As at ($000)	**December 31** **2022**
Total lease liabilities per above	**125**
Impact of discounting	9
Total lease payments	**134**
Lease payments due within one year	72
Lease payments due between one and three years	62

14. DECOMMISSIONING LIABILITY

A reconciliation of the decommissioning liability is provided below:

($000)	**Year ended December 31, 2022**	Year ended December 31, 2021
Balance, beginning of year	**2,569**	2,130
Additions	**15**	51
Changes in abandonment timing and costs	**197**	(61)
Acquisition (Note 7)	**29,012**	-
Dispositions	**-**	(68)
Settled	**(256)**	-
Accretion	**241**	199
Changes in discount rates	**(1,343)**	318
Balance, end of year	**30,435**	2,569
Canada	**1,393**	2,569
Netherlands	**29,042**	-

Tenaz calculated the present value of the decommissioning liability using a credit-adjusted risk-free rate, calculated using a credit spread of 11.8% as at December 31, 2022 (December 31, 2021 – 6.7%) added to risk-free rates based on long-term, risk-free government bonds. Tenaz's credit spread is determined using the Company's expected cost of borrowing at the end of the reporting period.

The country specific risk-free rates used as inputs to discount the obligations were as follows:

	December 31, 2022	December 31, 2021
Canada	**3.3%**	1.7%
Netherlands	**2.9%**	n/a

Tenaz has estimated the decommissioning liability based on current cost estimates of $61.3 million (December 31, 2021 - $5.6 million). Current cost estimates are inflated to the estimated time of abandonment using inflation rates of 1.4% and 2.9% for Canada and the Netherlands, respectively (2021 – Canada 1.8%), resulting in inflated cost estimates of $75.2 million (December 31, 2021 - $7.7 million). These payments are expected to be made between 2023 and 2044, with the majority of costs occurring between 2030 and 2040.

15. SHARE CAPITAL

Authorized

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

Issued and outstanding

	Number of Common Shares	Amount ($000)
Balance, December 31, 2020	10,892,097	37,712
Issuance of Common Shares on recapitalization	13,611,200	24,500
Issuance of units on recapitalization	2,777,800	5,000
Allocation to warrants	-	(3,203)
Issuance of Common Shares on rights offering	1,017,984	1,832
Exercise of stock options	139,000	470
Fractional rounding on share consolidation	(7)	-
Share issue costs	-	(1,808)
Balance, December 31, 2021	28,438,074	64,503
Exercise of stock options	110,000	363
Normal course issuer bid	(454,900)	(1,035)
Balance, December 31, 2022	**28,093,174**	**63,831**

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.

Reorganization

On October 7, 2021, shareholders approved a recapitalization transaction which was completed on October 8, 2021. The Reorganization involved the following:

- The Company completed 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. The 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.
- Concurrently with the closing of the non-brokered private placement, the appointment of a new management team and reconstitution of the board of directors was completed.
- On September 22, 2021, the Company completed a brokered private placement pursuant to which 13,611,200 subscription receipts were issued at a price of $1.80 per subscription receipt for gross proceeds of $24.5 million, which was held in escrow. On October 8, 2021, immediately following the completion of the change of management and the non-brokered private placement, the Company issued 13,611,200 Common Shares pursuant to the conversion of the 13,611,200 subscription receipts, and $24.5 million in gross proceeds was released from escrow.
- On October 15, 2021, the Company's name was changed from "Altura Energy Inc." to "Tenaz Energy Corp." through an amalgamation.
- On December 17, 2021, the Company completed a rights offering pursuant to which 1,017,984 Common Shares were issued at a price of $1.80 per common share for gross proceeds of $1.8 million.
- Pursuant to the Reorganization and the rights offering, the Company incurred $1.8 million of share issue costs and $1.25 million of transaction costs.

Exercise of stock options

In the year ended December 31, 2022, 110,000 stock options were exercised for cash proceeds of $231,000 (2021 – 139,000 stock options for $297,000) and contributed surplus related to the options exercised of $132,000 was transferred to share capital (2021 - $173,000).

Normal Course Issuer Bid ("NCIB")

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a NCIB. The NCIB allows Tenaz to purchase up to 2,619,970 Common Shares (approximately 9.2% of the outstanding Common Shares) over a twelve-month period beginning August 12, 2022 with a daily maximum purchase of 6,108 Common Shares.

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

During the year ended December 31, 2022, Tenaz purchased 454,900 Common Shares under the NCIB for total consideration of $0.8 million. The Common Shares purchased under the NCIB were cancelled following the settlement of the transactions.

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

($000, except as noted)	**Year ended December 31 2022**
Share repurchase activities (number of Common Shares)	
Shares repurchased	**(454,900)**
Amounts charged to:	
Share capital	**(1,035)**
Retained earnings	**281**
Share repurchase cost	**754**
Average cost per share ($)	**1.66**

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, 2022 and 2021	**2,777,800**	**1.80**

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

As at December 31, 2022 and 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.

Long-term Incentive Plans

Stock Option Plan

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

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

A summary of the Company's outstanding stock options at December 31, 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	(145,000)	2.70
Expired	(245,000)	2.14
Balance, December 31, 2022	**1,530,500**	**2.70**

The range of exercise prices for stock options outstanding and exercisable under the plan at December 31, 2022 is as follows:

Exercise Prices	Awards Outstanding			Awards Exercisable		
	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price ($)	Quantity	Remaining contractual life (years)	Weighted Average Exercise Price ($)
$2.70	1,525,000	3.9	2.70	508,700	3.9	2.70
$3.75 - $4.15	5,500	1.0	3.86	5,500	1.0	3.86
	1,530,500	**3.9**	**2.70**	**514,200**	**3.9**	**2.71**

No options were granted in 2022. The fair value of each option granted in the year ended December 31, 2021 was estimated using the Black-Scholes option-pricing model with weighted average assumptions for grants detailed in the following table.

	Year ended December 31 2022	Year ended December 31 2021
Weighted average fair value of options granted ($)	**-**	1.44
Risk-free interest rate (%)	**-**	1.24
Expected life (years)	**-**	4.0
Expected volatility (%)	**-**	75.7
Estimated forfeiture rate (%)	**-**	8.7
Expected dividends ($)	**-**	-

Tenaz Incentive Plan

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

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

On August 31, 2022, Tenaz issued 179,500 PSUs to new employees of the Company with a grant date fair value of $1.98 per award based on a 5-day volume weighted average price of the Company's stock prior to the grant. The PSUs are an equity settled long term incentive and vest evenly over a period of three years. The PSUs are subject to a performance factor on the annual vesting date which can be in the range of 0 to 2. This performance factor will be multiplied by the number of PSUs each employee holds at the time of vesting. The performance factor is determined by the Board of Directors based on the Company's performance during the vesting period. Share-based compensation expense for the PSUs is calculated based on the $1.98 grant date fair value and the number of awards outstanding multiplied by the estimated performance factor that will be realized upon vesting, net of an estimated forfeiture rate of 10%.

As of December 31, 2022, there were 1,530,500 Options outstanding and unexercised under the Stock Option Plan, 179,500 PSUs outstanding and 1,099,317 Common Shares available for issuance under the TIP. The TIP is administered by the Board of Directors or a committee of the Board.

Share-based Compensation

($000)	**Year ended December 31 2022**	Year ended December 31 2021
Share-based compensation:		
Options	**1,278**	619
PSUs	**64**	-
Total share-based compensation	**1,342**	619
Capitalized share-based compensation (Note 4)	**(74)**	(62)
Share-based compensation expensed	**1,268**	557

Weighted average Common Shares

($000, except Common Shares and per share amounts)	Year ended December 31 2022	Year ended December 31 2021
Net income – Basic and diluted	**5,237**	8,339
Weighted average Common Shares		
Basic	**28,424,452**	14,717,579
Diluted	**28,877,882**	14,876,424
Net income per share		
Basic	**0.18**	0.57
Basic	**0.18**	0.56

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 year ended December 31, 2022, 1,530,500 outstanding stock options and no outstanding PSUs were excluded from the weighted average number of Common Shares as they were anti-dilutive (2021 – 2,030,500 stock options).

16. REVENUE

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

($000)	Year ended December 31 2022	Year ended December 31 2021
Heavy crude oil	**24,789**	12,777
Natural gas liquids	**1,479**	1,209
Natural gas	**7,819**	3,844
Petroleum and natural gas sales	**34,087**	17,830
Canada	**32,035**	17,830
Netherlands	**2,052**	-

As at December 31, 2022, receivables for revenue were $9.7 million, which are included in accounts receivable (December 31, 2021 - $1.6 million).

17. INCOME TAXES

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

($000)	**Year ended December 31, 2022**	Year ended December 31, 2021
Net Income before taxes	**5,895**	8,339
Canadian corporate tax rate	**23.0%**	23.0%
Expected income tax expense	**1,356**	1,918
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	**299**	134
Non-deductible expenses	**2**	1
Change in estimates and other	**79**	13
Netherlands tax rate differential(1)	**395**	-
Share issue costs	**-**	(416)
Change in unrecognized deferred tax asset	**(1,473)**	(1,650)
Income tax expense	**658**	-

(1) Netherlands current taxes relate to taxable profits earned after the closing of the acquisition.

Tenaz's combined Canadian federal and provincial income tax rate is 23.0% (December 31, 2021 – 23.0%). In the Netherlands, a 50% effective income tax rate is applied to taxable profit from upstream oil and gas activity. In calculating taxable profit, an additional 10% uplift deduction is allowed to decrease taxable profit from certain deductions, including operating expenses, general and administrative, depletion and decommissioning.

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

As at December 31, 2022, the Company has $22.3 million taxes payable related to Tenaz NL (December 31, 2021 - $nil).

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

($000)	**December 31, 2022**	December 31, 2021
Deferred tax liabilities		
PP&E and E&E assets	**(32,353)**	(5,288)
Decommissioning liability	**(17,007)**	-
Investment in associate	**(854)**	-
Deferred tax assets		
Decommissioning liability	**-**	591
Derivative instruments	**110**	138
Lease liabilities	**27**	39
Non-capital losses	**6,782**	4,507
Other	**8**	13
Deferred tax asset (liability)	**(43,287)**	-

As at December 31, 2022, Tenaz had Canadian non-capital losses of $28.3 million (December 31, 2021 – $24.5 million) that expire between 2029 and 2042.

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

($000)	December 31, 2021	Recognized in net income	Acquisition (Note 7)	**December 31, 2022**
PP&E and E&E	(5,288)	(2,090)	(24,975)	**(32,353)**
Decommissioning liability	591	(271)	(17,327)	**(17,007)**
Investment in associate	-	-	(854)	**(854)**
Derivative instruments	138	(28)	-	**110**
Lease liabilities	39	(12)	-	**27**
Non-capital losses	4,507	2,275	-	**6,782**
Other	13	(5)	-	**8**
Deferred tax asset (liability)	-	(131)	(43,156)	**(43,287)**

18. FINANCIAL INSTRUMENTS

At December 31, 2022, Tenaz’s financial instruments include cash and cash equivalents, restricted cash, accounts receivable, derivative instruments, accounts payable and accrued liabilities, lease liabilities and bank debt.

Tenaz's financial instruments that are carried at fair value on the balance sheets include cash and cash equivalents, restricted cash and derivative instruments. All of Tenaz's financial instruments carried at fair value are transacted in active markets.

Tenaz's cash and cash equivalents and restricted cash are classified as Level 1 measurements. Tenaz's derivative instruments are classified as Level 2 measurements in the three-level fair value measurement hierarchy.

The carrying values of Tenaz's accounts receivable, accounts payable and accrued liabilities as at December 31, 2022 approximate their fair values due to the short-term nature of these instruments. The Company’s bank debt charges interest at floating rates and the margins charged by the lender are indicative of current credit spreads. Accordingly the fair value approximates the carrying value.

Risks associated with financial assets and liabilities

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

Credit Risk

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

The majority of the credit exposure on accounts receivable at December 31, 2022, pertain to revenue for accrued December 2022 production volumes and receivables from joint interest partners. Tenaz primarily transacts with four Canadian and three Dutch oil and natural gas marketing companies. The Canadian and Dutch marketing companies typically remit amounts to Tenaz by the 25th day of the month following production. At December 31, 2022, 92 percent of total outstanding accounts receivable pertains to 7 marketing companies. At December 31, 2022, Tenaz had a $0.2 million net joint venture receivable pertaining to capital expenditures and $0.1 million receivable resulting from GST filings. Subsequent to the period end, the $0.2 million joint venture receivable has been settled in full. For the year ended December 31, 2022, the Company received approximately 92 percent of its revenue from seven marketing companies (2021 – 91 percent of its revenue from four marketing companies).

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

As at ($000)	**December 31, 2022**	December 31, 2021
Current	**10,081**	1,706
31 – 60 days	**169**	28
61 – 90 days	**-**	40
> 90 days	**1**	3
Allowance for doubtful accounts	**-**	-
Total	**10,251**	1,777

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

Liquidity Risk

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

As at December 31, 2022, the Company was holding $1.8 million in cash and cash equivalents, $59.1 million in restricted cash (€40.9 million) and the unused portion of the Operating Loan was $3.5 million as the Company had outstanding Canadian letters of credit for $0.15 million (December 31, 2021 - $0.15 million). The DSA security letters of credit for €40.9 million are pledged against the restricted cash held (Note 6). On February 28, 2023, the security required pursuant to the DSAs decreased to €11.8 million resulting in the release of €29.1 million of restricted funds.

As at December 31, 2022, the Company was in compliance with all its bank debt covenants.

Market Risk

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

Commodity Price Risk

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

At December 31, 2022, Tenaz held the following crude oil and natural gas contracts:

Period	Commodity	Type of Contract	Quantity	Pricing Point	Contract Price	Fair Value at December 31 2022 ($000)
WTI Swap Contracts						
Jan 1/23—Feb 28/23	Crude Oil	Swap	200 bbls/d	WTI	USD $75.00	(86)
Natural Gas Swap Contracts						
Jan 1/23—Feb 28/23	Natural Gas	Swap	1,000 GJ/d	AECO 5A	CAD $5.54	(21)
Natural Gas Collar						
Nov 1/22—Mar 31/23	Natural Gas	Bought put	1,000 GJ/d	AECO 7A	CAD $4.00	23
Nov 1/22—Mar 31/23	Natural Gas	Sold call	1,000 GJ/d	AECO 7A	CAD $7.34	(6)
Derivative instrument liability						**(48)**

At December 31, 2022, the crude oil and natural gas derivative contracts were fair valued with a liability of $0.05 million recorded on the balance sheet (December 31, 2021 - $0.6 million liability).

If the forward price curves for WTI, AECO 7A and AECO 5A increase or decrease by 10 percent, it is estimated that Tenaz's net income (loss) would change by approximately $0.1 million. The sensitivity is hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The result of the sensitivity is not predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

Foreign currency risk

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. In addition, the Company may be exposed to foreign exchange risk in relation to foreign denominated cash, foreign currency swaps as well as other foreign-denominated working capital. Tenaz may manage the risks associated with changes in foreign currency by entering into foreign currency swaps.

At December 31, 2022, Tenaz held foreign exchange swaps fair valued with a $0.4 million liability recorded on the balance sheet.

Period	Type of Contract	Notional Amount	Notional Amount	Average Rate	Fair Value at December 31 2022 ($000)
Foreign Currency Swaps					
		EUR	CAD		
March 3, 2023	Swap	25,250,000	36,332,225	1.4389	(428)
Derivative instrument liability					**(428)**

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	December 31, 2022 Increase 10%	December 31, 2022 Decrease 10%
CAD relative to EUR			
EUR restricted cash	Period End	(3,590)	3,590
Foreign exchange swaps	Forward	3,633	(3,633)

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 $11,000 for the year ended December 31, 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 December 31, 2022 and 2021:

($000)	Commodity	Foreign exchange	December 31 2022
Derivative instrument assets	44	-	**44**
Derivative instrument liabilities	(92)	(428)	**(520)**
Net financial derivative instrument asset (liability)	(48)	(428)	**(476)**

($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)	Year ended December 31, 2022	Year ended December 31,2021
Realized loss		
Commodity contracts	**(1,824)**	(2,731)
Realized loss on derivative instruments	**(1,824)**	(2,731)
Unrealized gain (loss)		
Commodity contracts	**552**	(231)
Foreign exchange swaps	**(428)**	-
Unrealized gain (loss) on derivative instruments	**124**	(231)
Loss on derivative instruments	**(1,700)**	(2,962)

19. CAPITAL MANAGEMENT

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

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

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

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

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

($000)	**December 31, 2022**	December 31, 2021
Current assets	**72,317**	27,499
Current liabilities	**(58,749)**	(7,411)
Net current assets	**13,568**	20,088
Exclude fair value of derivative instruments	**476**	600
Adjusted working capital	**14,044**	20,688

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

On August 5, 2022, the Toronto Stock Exchange approved the Company to commence a NCIB. The NCIB will allow Tenaz to purchase up to 2,619,970 Common Shares (approximately 9.2% of the outstanding Common Shares) over a twelve-month period beginning August 12, 2022 with a daily maximum purchase of 6,108 Common Shares. During the year ended December 31, 2022 Tenaz purchased 454,900 Common Shares under the NCIB for total consideration of $0.8 million (Note 15). The Common Shares purchased under the NCIB were cancelled following the settlement of the transactions.

20. SUPPLEMENTAL INFORMATION

Cash flow

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

($000)	**Year ended December 31, 2022**	Year ended December 31, 2021
Provided by (used in):		
Accounts receivable	**(3,183)**	(691)
Prepaid expenses and deposits	**(847)**	(31)
Accounts payable and accrued liabilities	**2,398**	5,571
Taxes payable	**527**	-
	(1,105)	4,849
Provided by (used in):		
Operating activities	**991**	446
Investing activities	**(2,096)**	4,403
	(1,105)	4,849

21. COMMITMENTS AND CONTINGENCIES

The Company’s bank debt and lease liability commitments at December 31, 2022 are described in Notes 12 and 13, respectively.

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

22. RELATED PARTY DISCLOSURES

Key management personnel compensation

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

($000)	**Year ended December 31, 2022**	Year ended December 31, 2021
Short-term benefits	**2,844**	1,318
Share-based compensation	**1,248**	607
Termination benefits	**-**	220
	4,092	2,032

23. SUBSEQUENT EVENTS

Reduced DSA security, Restricted Cash released, Foreign currency swap settled and Credit Facilities repaid

On February 28, 2023, the security required pursuant to the DSAs decreased to €11.8 million (Note 6) resulting in the release of €29.1 million of restricted funds held and the settlement of the foreign currency swap (Note 18) in early March 2023. On March 10, 2023, Tenaz repaid the drawn Credit Facilities (Note 12) from the released restricted funds.

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, Operations

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