

TENAZ ENERGY CORP. ANNOUNCES Q1 2022 RESULTS AND CORPORATE UPDATE



CALGARY, AB, May 30, 2022 /CNW/ - Tenaz Energy Corp. (“Tenaz”, “We”, “Our”, “Us” or the “Company”) (TNZ: TSX) is pleased to announce its financial and operating results for the three months ended March 31, 2022 and corporate update. The unaudited interim condensed consolidated financial statements and related management’s discussion and analysis (“MD&A”) are available at www.sedar.com and www.tenazenergy.com. Selected financial and operating information for the three months ended March 31, 2022 appear below and should be read in conjunction with the related financial statements and MD&A.

HIGHLIGHTS

- On May 25, 2022, we announced an agreement to acquire SDX Energy Plc (“SDX”) in an all-share transaction. SDX is an AIM-listed oil and gas producer with assets in Egypt and Morocco. Completion of the transaction is subject to a number of conditions and approvals including the approval of the Toronto Stock Exchange (“TSX”), and shareholders of both Tenaz and SDX. The combined company will retain the name Tenaz Energy Inc. and will be headquartered in Calgary, Alberta.
- On May 12, 2022, Tenaz completed the process of graduation to the TSX and concurrently delisted from the TSX Venture exchange.
- During Q1 2022, we equipped, tied-in and brought on production two (1.75 net) wells targeting the Rex formation in Leduc-Woodbend. Following clean-up, production rates are on our predicted type curve.
- Production volumes averaged 1,007 boe/d¹ in the quarter, little changed from Q4 2021. While two new wells were placed on production during the first quarter, they contributed little to quarterly production due to frac clean-up.
- Net income for the quarter was \$3.5 million (\$0.12 per share), which increased from a net loss of \$0.3 million (\$0.01 per share) in Q4 2021, primarily driven by an impairment reversal arising from an improved commodity price outlook.
- Funds flow from operations² for the quarter was \$1.0 million, up 360% from Q4 2021. Higher first quarter funds flow from operations resulted from higher commodity prices and the absence of recapitalization transaction costs incurred in Q4 2021, partially offset by realized hedging losses and increased well servicing.
- Hedges put in place prior to the recapitalization, which were required by credit facility covenants, expire in May 2022. Hedging requirements by lenders have been waived for Tenaz following recapitalization and repayment of the outstanding balance on the facility. We have elected at this time to not hedge any additional production.
- We ended the quarter with positive adjusted working capital² of approximately \$21 million, providing flexibility in deploying capital in our acquisition strategy and organic investment program.
- Our Board of Directors has approved the establishment of a plan to repurchase shares through a normal course issuer bid (the “NCIB”). The NCIB will allow the repurchase and retirement of up to 10% of the issued and outstanding common shares of Tenaz. The NCIB will be subject to the approval of the TSX and is intended to be effective upon closing of the SDX acquisition.

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.

FINANCIAL AND OPERATIONAL SUMMARY

(\$000 CAD, except per share and per boe amounts)	Three months ended		
	Mar 31 2022	Dec 31 2021	Mar 31 2021
FINANCIAL			
Petroleum and natural gas sales	6,201	5,453	3,440
Cash flow from operating activities	1,158	373	827
Funds flow from operations ⁽¹⁾	992	216	809
Per share – basic ⁽¹⁾⁽⁴⁾	0.03	0.01	0.07
Per share – diluted ⁽¹⁾⁽³⁾⁽⁴⁾	0.03	0.01	0.07
Net income (loss) ⁽²⁾	3,497	(258)	(976)
Per share – basic ⁽²⁾⁽⁴⁾	0.12	(0.01)	(0.09)
Per share – diluted ⁽²⁾⁽³⁾⁽⁴⁾	0.12	(0.01)	(0.09)
Capital expenditures ⁽¹⁾	719	5,840	1,510
Property dispositions	-	-	(438)
Adjusted working capital (net debt) ⁽¹⁾	20,995	20,688	(4,207)
Common Shares outstanding (000)			
End of period – basic ⁽⁴⁾	28,458	28,438	10,892
Weighted average for the period – basic ⁽⁴⁾	28,457	26,069	10,892
Weighted average for the period – diluted ⁽³⁾⁽⁴⁾	29,361	27,450	10,892
OPERATING			
<u>Average daily production</u>			
Heavy crude oil (bbls/d)	515	502	496
NGLs (bbls/d)	62	78	53
Natural gas (Mcf/d)	2,579	2,895	2,356
Total (boe/d) ⁽⁵⁾	1,007	1,063	942
<u>(\$/boe)⁽⁵⁾</u>			
Petroleum and natural gas sales	68.44	55.78	40.59
Royalties	(10.38)	(7.10)	(4.45)
Operating expenses	(21.02)	(12.20)	(13.16)
Transportation expenses	(1.57)	(1.81)	(1.96)
Operating netback ⁽¹⁾	35.47	34.67	21.02
BENCHMARK COMMODITY PRICES			
WTI crude oil (US\$/bbl)	94.29	77.19	57.84
WCS (CAD\$/bbl)	101.03	78.71	57.43
AECO daily spot (CAD\$/GJ)	4.52	4.41	2.99

(1) 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.

(2) Prior period amounts have been restated. Refer to the “Change in Accounting Policies” section included in Management’s Discussion & Analysis for the three months ended March 31, 2022.

(3) Basic weighted average shares are used to calculate diluted per share amounts in periods in which there is a loss position.

(4) On December 23, 2021, the Company completed a 10 to 1 common share consolidation. All per share and common share values have been presented on a post-consolidation basis.

(5) The term barrels of oil equivalent (“boe”) may be misleading, particularly if used in isolation. Per boe amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 Mcf) of natural gas to one barrel (1 bbl) of crude oil. Refer to “Barrels of Oil Equivalent” section included in the “Advisories” section of this press release.

PRESIDENT'S MESSAGE

Our vision is to build a leading intermediate-size E&P by targeting acquisition of high-quality assets in global markets. As a meaningful step in delivering on this strategy, Tenaz is pleased to announce it has reached agreement to acquire all of the issued and to be issued share capital of SDX Energy PLC ("SDX") in an all-share transaction (the "Transaction").

SDX has producing assets in Egypt and Morocco, two desirable jurisdictions within our primary regions of focus. The SDX assets are high quality, having both high-return organic investment opportunities and proximity to additional business development targets. This access to organic development and consolidation gives us the potential to build a significant operating base in the MENA region. We find both jurisdictions to be highly supportive of the oil and gas industry. Egypt is a resource rich country that recognizes the importance of oil and gas to the energy transition and to energy security, and accordingly, encourages sustainable hydrocarbon development. Morocco has a highly supportive fiscal environment, coupled with increasing local natural gas demand that provides a ready market for domestic production.

Our Board has unanimously determined that the Transaction is in the best interests of Tenaz and its shareholders, and unanimously recommends that Tenaz shareholders vote in favour of the resolutions relating to the Transaction. Similarly, the SDX board of directors believes the Transaction with Tenaz represents a compelling opportunity for SDX shareholders, its employees and wider stakeholders to participate in Tenaz's growth. As such, the SDX Directors voted unanimously to recommend the Transaction to SDX shareholders.

The SDX acquisition follows the M&A playbook we outlined at the time of the recapitalization: careful bottom-up evaluation of the assets under consideration, a plan for effective integration of the SDX staff and acquired assets into Tenaz, and identification of opportunities for operating improvement. We expect that the combination of our technical teams will enhance the operating, HSE and sustainability performance of these assets and future assets that we may acquire as we pursue our corporate strategy.

Due to rules in the United Kingdom governing M&A, we are not allowed to forecast future profitability of either our current operations or of the combined entity until completion of the transaction. We have forecast production accretion based on guidance by Tenaz and SDX. In addition, we have conducted a look back at net operating income accretion based on Q4 2021 results. We find both metrics accretive, as explained in our press release dated May 25, 2022, and in the presentation regarding the transaction on our website. In addition, SDX has negative net debt and a Canadian tax pool position which we find desirable. Our new combined company will have \$39 million of cash on hand as at December 31, 2021, further enhancing our flexibility and expanding the war chest available to partially fund additional acquisitions.

We look forward to closing this transaction and joining forces with the high quality staff at SDX. In the meantime, we continue to pursue other acquisition opportunities within our geographic remit as outlined at the time of the recapitalization. Our recent graduation to the TSX big board is consistent with this strategy, increasing our access to capital for value-adding transactions. The commodity run-up has significantly increased cash flows from E&P assets, but increases in asset and enterprise valuations have not always kept pace with the improvement in cash flows. We believe we can be a competitive employer of capital in this new environment, and intend to take advantage of valuations that are typically lower in the overseas market at the same time that the opportunities for operating improvement are often greater.

Corporate Update

On May 25, 2022, the Company announced the acquisition of London AIM listed SDX in an all-share deal valued at \$34.3 million (based on the closing price of Tenaz at the time of announcement). This deal marks our first international acquisition following the recapitalization of the Company in October 2021. SDX has operations in Egypt and Morocco with a previously stated 2022 production guidance range of 3,300 - 3,550 boe/d. In addition to the producing assets, SDX also has approximately \$24 million in positive working capital, including \$13.5 million in cash, and has \$89 million in Canadian tax pools.

Completion of the Transaction is subject to a number of conditions and approvals including, but not limited to, the approval of the TSX, and shareholders of both Tenaz and SDX. Tenaz will hold a shareholder meeting to approve the Transaction in early to mid-July, with SDX expected to hold a shareholder meeting to approve the Transaction in mid-July.

On May 12, 2022, following approval from the 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.

Our Board has authorized application to the TSX to institute a normal course issuer bid which will establish the ability to repurchase, for cancellation, up to 10% of the issued and outstanding common shares of Tenaz. The NCIB will be subject to the approval of the TSX and is intended to be effective upon closing of the SDX acquisition. Tenaz believes that following the closing of the SDX Transaction the market price of its common shares may not necessarily reflect the Company's

underlying value and future prospects, and that the purchase of the Company's common shares may represent an appropriate use of the Company's financial resources and enhance shareholder value.

Operations Update

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

First quarter production primarily reflected natural decline of base production, lower uptime on the single Leduc-Woodbend well that is tied in to a third-party facility, and limited contribution from our two most recent wells. Two gross (1.75 net) new wells were equipped, tied-in and brought on production during Q1, but spent most of the quarter cleaning up frac fluid, and contributed little to Q1 production. Both wells have now cleaned up and are on their expected 1.5-mile type curves. We experienced lower uptime at our 8-36 well which is tied into third party infrastructure and was shut-in during the quarter. The 8-36 well was a successful extension test drilled in the northern part of the field in 2019. This well will be tied into company-owned infrastructure in a future drilling campaign developing the north part of the Leduc-Woodbend field. Once completed, this extension of pipeline infrastructure will increase uptime and decrease production costs for this well and for future wells in this area.

We are preparing for our 2022 Leduc-Woodbend drilling program which currently includes two gross (1.75 net) wells. The program is expected to begin mid-year after a drilling rig has been secured and ground conditions are favorable. Previous Leduc-Woodbend wells had approximately 1-mile and 1.5-mile horizontal lateral lengths. In the current program, we expect to drill our first 2-mile horizontal lateral. We believe that 2-mile drilling is warranted given our previous success with 1.5-mile long wells, and is a natural move up the learning curve to further improve capital efficiencies. The Leduc-Woodbend wells reach payout rapidly, within one year at the current commodity strip pricing. We expect to have optionality to expand the drilling program for the second half of 2022, potentially to a four-well program, and will make that determination later in the year based on services availability among other factors.

Our Leduc-Woodbend project has a significant drilling inventory capable of providing production growth for a number of years. We plan to continue to develop this valuable land base into a business unit of appropriate scale over the coming years with funding from internally generated cash flow. We view this ongoing semi-conventional development project as a small but worthwhile component of our overall growth and free cash flow-oriented strategy.

In closing, we are looking forward to assimilating our first international acquisition, and we would like to thank our shareholders for their ongoing support of Tenaz.

/s/ Anthony Marino
President and Chief Executive Officer
May 30, 2022

About Tenaz Energy Corp.

Tenaz is an energy company focused on the acquisition and sustainable development of international oil and gas assets capable of returning free cash flow to shareholders. In addition, Tenaz conducts development of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta.

ADVISORIES

Non-GAAP and Other Financial Measures

This press release contains references to measures used in the oil and natural gas industry such as “funds flow from operations”, “funds flow from operations per share”, “funds flow from operations per boe”, “net debt”, and “operating netback”. The data presented in this Press release is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with International Financial Reporting Standards (“IFRS”) and sometimes referred to in this press release as Generally Accepted Accounting Principles (“GAAP”) as issued by the International Accounting Standards Board. These reported non-GAAP measures and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used, they should be given careful consideration by the reader.

Funds flow from operations

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

(\$000)	Q1 2022	Q4 2021	Q1 2021
Cash flow from operating activities	1,158	373	827
Change in non-cash working capital	(166)	(157)	(18)
Funds flow from operations	992	216	809

Funds flow from operations per share is calculated using basic and diluted weighted average number of shares outstanding in the period.

Funds flow from operations per boe is calculated as funds flow from operations divided by total production sold in the period.

Capital Expenditures and Capital Expenditures, Net of Dispositions

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

(\$000)	Q1 2022	Q4 2021	Q1 2021
Cash flow used in investing activities	4,853	1,645	671
Change in non-cash working capital	(4,134)	4,195	401
Capital expenditures, net of dispositions	719	5,840	1,072
Property dispositions	-	-	438
Capital expenditures	719	5,840	1,510

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 financial instruments. The Company's adjusted working capital (net debt) as at March 31, 2022 and December 31, 2021 is summarized as follows:

(\$000)	March 31, 2022	December 31, 2021
Current assets	24,881	27,499
Current liabilities	(4,509)	(7,411)
Working capital surplus	20,372	20,088
Exclude fair value of derivative instruments	623	600
Adjusted working capital	20,995	20,688

Operating Netback

The Company calculates operating netback on a per boe basis, as petroleum and natural gas sales less royalties, operating costs and transportation costs. Operating netback is a key industry benchmark and a measure of performance for the Company 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. The Company's operating netback is disclosed in the "Financial and Operational Summary" section of this press release.

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 and Statements

This press release contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "budget", "forecast", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this press release contains forward-looking information and statements pertaining to: the Transaction, the Company's capital plans, activities and budget for 2022, forecasted average production volumes and capital expenditures for 2022, and the Company's strategy.

The forward-looking information and statements contained in this press release reflect several material factors and expectations and assumptions of the Company including, without limitation: the completion of transactions as proposed, the continued performance of the Company's oil and gas properties in a manner consistent with its past experiences; that the Company will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of the Company'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. The Company 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 press release 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 the Company'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 the Company or by third party operators of the Company's properties, increased debt levels or debt service requirements; inaccurate estimation of the Company'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 the Company's public documents.

The forward-looking information and statements contained in this press release speak only as of the date of this press

release, and the Company 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.

Neither the Toronto Stock Exchange nor its Regulation Services Provider (as that term is defined in the policies of the Toronto Stock Exchange) accepts responsibility for the adequacy or accuracy of this release.

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