



TENAZ ENERGY CORP. ANNOUNCES Q2 2022 RESULTS AND NORMAL COURSE ISSUER BID

CALGARY, AB, August 8, 2022 /CNW/ - Tenaz Energy Corp. (“Tenaz”, “We”, “Our”, “Us” or the “Company”) (TSX: TNZ) is pleased to announce its financial and operating results for the three and six months ended June 30, 2022 and that the Toronto Stock Exchange has approved our notice of intention to institute a Normal Course Issuer Bid (“NCIB”). We expect to commence share purchases on or after August 12, 2022.

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 and six months ended June 30, 2022 appear below and should be read in conjunction with the related financial statements and MD&A.

HIGHLIGHTS

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

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

(1) This is a non-GAAP and other financial measure. Refer to “Non-GAAP and Other Financial Measures” included in the “Advisories” section of 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 and six months ended June 30, 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. When we announced the proposed acquisition of SDX Energy Plc (the "Transaction"), we viewed it as a small but high-return step in the direction of establishing a base within our primary targeted region of Europe-MENA. Our approach in identifying and negotiating the Transaction was consistent with our philosophy of careful asset evaluation, uncovering opportunities for operational improvement, and establishing favorable terms for Tenaz shareholders. The Transaction, as originally formatted under the Scheme, exceeded our criteria for rate of return, accretion, free cash generation under Tenaz operation, opportunity for operational improvement and geographic location.

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

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

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

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

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

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

TSX Graduation

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

Normal Course Issuer Bid

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

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

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

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

Bank Facility

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

Operations Update

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

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

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

drilled in the Leduc-Woodbend field. Once online, these wells should contribute to increased field production rates throughout the second half of 2022.

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

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

/s/ Anthony Marino

President and Chief Executive Officer
August 5, 2022

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

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

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

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 and expected transaction costs, the NCIB and expected share buybacks thereunder, Tenaz's capital plans, activities and budget for 2022, expected well performance, forecasted average production volumes and capital expenditures for 2022, and the Company's strategy.

The forward-looking information and statements contained in this 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.

For further information:

Tenaz Energy Corp.

investors@tenazenergy.com

Anthony Marino
President and Chief Executive Officer
Direct: 587 330 1983

Bradley Bennett
Chief Financial Officer
Direct: 587 330 1714