

## TENAZ ENERGY CORP. ANNOUNCES Q3 2022 RESULTS, 2022 CAPITAL UPDATE AND 2023 BUDGET AND GUIDANCE



CALGARY, AB, November 14, 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 nine months ended September 30, 2022, its 2022 operations and capital update and its 2023 budget and production guidance.

The unaudited interim condensed consolidated financial statements and related management’s discussion and analysis (“MD&A”) are available at [www.sedar.com](http://www.sedar.com) and [www.tenazenergy.com](http://www.tenazenergy.com). Selected financial and operating information for the three and nine months ended September 30, 2022 appear below and should be read in conjunction with the related financial statements and MD&A.

A webcast presentation to accompany this release is available on Tenaz’s website at [www.tenazenergy.com](http://www.tenazenergy.com).

### HIGHLIGHTS

- During the third quarter, we completed our two well (1.75 net) summer drilling program and brought both wells on production. The shorter of the two wells had a completed length of 1.25 miles and is the best performing well drilled in the field to-date based on peak 60-day production rate. The second well has a two-mile length and is still cleaning up due to a higher volume of frac fluid to recover.
- Late in Q3 2022, we commenced an expansion of our drilling program after securing a rig suitable for drilling additional two-mile long wells. As a result, we are increasing our 2022 capital program to a range of between \$16 - \$17 million. These new wells are expected to come on production late in Q4 2022. The acceleration of these two wells avoids winter completions, and helps advance the Leduc-Woodbend field towards more appropriate scale.
- Production volumes averaged 1,222 boe/d<sup>(1)</sup> in the quarter, an increase of 9% compared to Q2 2022, driven primarily by initial production from the two wells in the summer program. These wells began producing oil late in Q3 2022.
- Funds flow from operations (“FFO”)<sup>(2)</sup> for the quarter was \$2.3 million, up 8% from Q2 2022. Higher FFO primarily resulted from higher production, partially offset by lower commodity prices and higher electricity and chemical costs.
- Net income for the quarter was \$0.2 million (\$0.01 per share), marking the third straight quarter of positive net income. In Q3 2022, the impact of higher production was partially offset by lower commodity prices and cost inflation on a portion of our operating expenditures. Year-to-date net income was \$4.5 million (\$0.16 per share).
- Total capital expenditures for the third quarter were \$7.9 million, bringing year-to-date capital investment to \$12.1 million, reflecting the drilling, completion and tie-in of the summer program plus the additional drilling of 2 (1.75 net) wells in the accelerated fall program.
- The Board of Tenaz has approved a capital budget of \$16 - \$18 million for 2023. The budget provides for a four-well summer drilling campaign and facility expansion to support field extension in the southern portion of the Leduc-Woodbend field. The drilling portion of the capital program is planned for late Q2 2023, after spring break-up, with contributions from the new wells expected in Q3 2023. Production guidance for 2023 is 1450 - 1550 boe/d, reflecting growth of approximately 20% from 2022.
- During Q3 2022, we terminated our proposed combination with SDX Energy PLC. We were unable to complete the combination through a Scheme of Arrangement, and the potential to acquire a majority of SDX shares via a Takeover Offer no longer met our value and strategic criteria.
- We initiated our Normal Course Issuer Bid (“NCIB”) program during Q3 2022, retiring 142,700 shares in the quarter.

<sup>1</sup> 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.

<sup>2</sup> 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			Nine months ended	
	Sep 30, 2022	Jun 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021
<b>FINANCIAL</b>					
Petroleum and natural gas sales	7,690	9,344	4,717	23,235	12,337
Cash flow from operating activities	1,444	1,936	1,982	4,538	3,572
Funds flow from operations <sup>(1)</sup>	2,280	2,104	1,349	5,376	3,283
Per share – basic <sup>(1)(3)</sup>	0.08	0.07	0.12	0.19	0.30
Per share – diluted <sup>(1)(3)</sup>	0.08	0.07	0.12	0.18	0.30
Net income <sup>(2)</sup>	224	769	10,105	4,490	8,597
Per share – basic <sup>(2)(3)</sup>	0.01	0.03	0.93	0.16	0.79
Per share – diluted <sup>(2)(3)</sup>	0.01	0.03	0.93	0.15	0.79
Capital expenditures <sup>(1)</sup>	7,882	3,512	2,614	12,113	4,551
Dispositions <sup>(1)</sup>	-	-	-	-	(1,750)
Adjusted working capital (net debt) <sup>(1)</sup>	13,887	19,431	(3,462)	13,887	(3,462)
Common Shares outstanding (000)					
End of period – basic <sup>(3)</sup>	28,405	28,548	10,892	28,405	10,892
Weighted average for the period – basic <sup>(3)</sup>	28,520	28,481	10,892	28,486	10,892
Weighted average for the period – diluted <sup>(3)</sup>	28,690	29,241	10,892	29,127	10,892
<b>OPERATING</b>					
<u>Average daily production</u>					
Heavy crude oil (bbls/d)	687	636	496	613	507
NGLs (bbls/d)	47	61	72	56	61
Natural gas (Mcf/d)	2,929	2,524	2,861	2,679	2,588
Total (boe/d) <sup>(4)</sup>	1,222	1,117	1,045	1,116	999
<u>(\$/boe)<sup>(4)</sup></u>					
Petroleum and natural gas sales	68.39	91.90	49.04	76.25	45.38
Royalties	(15.23)	(17.11)	(5.53)	(14.41)	(5.07)
Operating expenses	(17.04)	(14.47)	(14.44)	(17.37)	(13.88)
Transportation expenses	(1.75)	(3.12)	(1.75)	(2.16)	(2.05)
Operating netback <sup>(1)</sup>	34.37	57.20	27.32	42.31	24.38
<b>BENCHMARK COMMODITY PRICES</b>					
WTI crude oil (US\$/bbl)	91.64	108.41	70.56	98.09	65.56
WCS (CAD\$/bbl)	93.72	122.08	71.88	105.58	65.40
AECO daily spot (CAD\$/Mcf)	4.45	7.26	3.58	5.49	3.26

(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 nine months ended September 30, 2022.

(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 this press release.

## PRESIDENT'S MESSAGE

Tenaz is now one year into our global strategy following the recapitalization of Altura Energy. Our vision is to build a leading intermediate-size E&P by targeting acquisition of high-quality assets in global markets. While we have not closed an acquisition yet, we have maintained a high level of activity in the M&A market. At present, we have multiple acquisition offers in place and fully expect to complete one or more value-adding transactions in a reasonable time frame. Our focus is on making certain that all transactions redound to the benefit of our existing shareholders and advance our long-term global strategy.

The terminated SDX combination during the third quarter is an example of sticking to our discipline. The originally contemplated combination through a Scheme of Arrangement met our criteria for a meaningful and value-adding transaction. However, when the Scheme of Arrangement did not generate the required super-majority of voted equity by SDX shareholders, we elected to terminate rather than revert to a Takeover Offer under which complete control of the merged entity was unlikely. Tenaz will not chase transactions which do not advance our strategic objectives or which offer diminished economics versus our planned business case for deploying shareholder capital.

Throughout 2022, we progressed and expanded our acquisition pipeline. Commodity prices have continued to be both volatile and strong as compared to the industry's experience over the past decade. Nonetheless, we now sense greater realism on the part of asset sellers as consumers and policymakers have fought back against post-pandemic and war-driven inflation. Whereas a number of potential sellers removed producing assets from the market earlier in 2022, potential counterparties in our current transaction pipeline appear more resolute in achieving their strategic divestment goals. Furthermore, the wide bid-ask gulf that existed earlier this year also appears to have narrowed as most sellers no longer wait for a continued upward spiral in energy commodities, particularly in European gas. We believe the current acquisition market offers opportunities for higher returns as well, because our expected transaction prices have not typically kept up with today's strong commodity prices.

We continued to advance a number of acquisition prospects during the third quarter, testing them under consistent criteria to ensure shareholder value creation when employing acquisition capital. The assets in our current acquisition pipeline are primarily located within our highest-priority geographic region of Europe-MENA, with a significantly lesser representation in the Americas. We believe that our current pipeline will result in consummated transactions. We are sometimes asked to specify when such transactions will occur. Our committed policy is to not disclose prospective transactions until they reach the point of an executed definitive agreement between Tenaz and the seller, absent extraordinary circumstances that would otherwise require earlier disclosure.

In the meantime, we believe our strong financial condition, as reflected in our positive working capital balance of approximately \$14 million as at the end of the third quarter, enhances the flexibility of our model. In addition, we have put in place a \$10 million revolving credit facility to further enhance our liquidity position.

We initiated our share buyback program in August 2022 as an efficient use of capital to retire our shares that we assess to be undervalued in the current market. The normal course issuer bid is consistent with our overall corporate strategy, as it is intended to invest in our own stock at a time of lower market valuation, smooth equity price volatility, and contribute to a constructive environment in which future acquisitions may be primarily funded with equity issuance.

### 2022 Operations and Capital 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 over a contiguous land 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 the year since the recapitalization, we have modified several aspects of design and execution of this project. In particular, we have focused on an improved geologic description of the Rex reservoir and proppant schedule changes, which have resulted in increased in-zone placement of the horizontal laterals and nearly 100% frac placement. Recent drilling results indicate that these modifications are improving production performance.

Production volumes averaged 1,222 boe/d<sup>(1)</sup> in the quarter, an increase of 9% compared to Q2 2022, driven primarily by initial production from the two (1.75 net) summer-program wells drilled in the quarter. These wells began producing oil and gas late in Q3 2022 with the shorter of the two wells (1.25 mile length) cleaning up quickly to first oil production. This well

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averaged approximately 400 boe/d during its first two months of post-cleanup production, making it the strongest well yet drilled in Leduc-Woodbend based on IP 60. The longer of the two summer wells (2.0 mile length) utilized significantly more frac fluid, leading to an increased clean-up period. This well has only recently begun to contribute to oil production, with rates continuing to increase.

Due to the strong rates of return and rapid payouts from the Rex program, we communicated in our Q2 2022 report that we were considering drilling two additional wells during 2022, depending on our ability to secure suitable drilling and completion services. Our Board has approved bringing forward two additional wells into 2022. In addition to the two additional wells, we plan to construct new pipelines to tie-in these wells and to enhance our water disposal capacity in the area of the additional wells. Drilling this fall avoids the costs and frac fluid quality difficulties previously experienced in winter completions, and more generally, builds greater production scale to reduce unit costs. From a standpoint of return on shareholder capital and long-term value creation, these investments significantly exceed our cost of capital, enhance free cash flow, and preserve mineral acreage while unlocking undeveloped reserve value.

These two (1.75 net) additional wells were drilled in Q3 2022, and will be fraced and tied-in during Q4 2022. The wells will be in their clean-up periods during the fourth quarter, and are therefore not expected to meaningfully contribute to 2022 oil or gas production. Our revised capital guidance range for 2022 is now \$16 to \$17 million for 2022, reflecting a total drill, complete, tie-in and equip program for 4 (3.5 net) wells, along with facility and pipeline expansions.

### **2023 Budget and Production Guidance**

Our Board of Directors has approved a capital budget of \$16 - \$18 million for 2023 which envisions a four (3.35 net) well drilling program as we continue to develop the Leduc-Woodbend field. Our annual production guidance for 2023 is 1450 - 1550 boe/d, approximately 20% higher than 2022. The 2023 production guidance reflects more appropriate operating scale at Leduc-Woodbend, and sets the stage for robust free cash flow in future years. The 2023 capital program, consistent with our preferred seasonal approach, will commence around mid-year, with production contributions from the new wells expected during the last third of 2023. This program remains flexible, and our team is prepared for several options to scale the program up or down depending on the commodity environment or to deploy cash generated into other ventures.

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 worthwhile component of our overall growth and free cash flow-oriented strategy.

We believe we have made substantial progress over the past year in both improving our existing Canadian development project and advancing a robust pipeline of potential international acquisitions. We appreciate the support our shareholders have provided, starting with last year's recapitalization, through the proposed SDX combination, and now as we prepare for other international transactions. We are confident in our strategy and ability to execute it, and intend to deliver for our shareholders.

/s/ Anthony Marino

President and Chief Executive Officer  
November 10, 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

*Tenaz considers funds flow from operations to be a key measure of performance as it demonstrates the Company's ability to generate the necessary funds for sustaining capital, future growth through capital investment, and to settle liabilities. 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)	Q3 2022	Q2 2022	Q3 2021	YTD 2022	YTD 2021
Cash flow from operating activities	1,444	1,936	1,982	4,538	3,572
Change in non-cash working capital	836	168	(633)	838	(289)
Funds flow from operations	2,280	2,104	1,349	5,376	3,283

*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

*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 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)	Q3 2022	Q2 2022	Q3 2021	YTD 2022	YTD 2021
Exploration and evaluation expenditures	-	-	-	-	80
Property and equipment expenditures	7,882	3,512	2,614	12,113	4,471
Capital expenditures	7,882	3,512	2,614	12,113	4,551

#### Acquisitions (Dispositions)

*Tenaz considers acquisitions (dispositions) to be a useful measure of the economic investment associated with the Company's acquisition and disposition activity. Acquisitions (dispositions) are calculated as the sum of acquisitions and dispositions from the consolidated statements of cash flows, Tenaz Common Shares issued as consideration, the estimated value of contingent consideration, the amount of an acquiree's outstanding long-term debt assumed plus or net of acquired working capital deficit or surplus. A reconciliation to the acquisitions and dispositions line items in the consolidated statements of cash flows is set forth below:*

(\$000)	Q3 2022	Q2 2022	Q3 2021	YTD 2022	YTD 2021
Dispositions	-	-	-	-	(1,750)

### Adjusted working capital

Management views adjusted working capital as a key industry benchmark and measure to assess the Company's financial position and liquidity. Adjusted working capital is calculated as current assets less current liabilities, excluding the fair value of financial instruments. The Company's adjusted working capital as at September 30, 2022 and December 31, 2021 is summarized as follows:

(\$000)	September 30, 2022	December 31, 2021
Current assets	21,516	27,499
Current liabilities	(7,629)	(7,411)
Working capital surplus	13,887	20,088
Exclude fair value of derivative instruments	-	600
Adjusted working capital	13,887	20,688

### Operating Netback

Tenaz calculates operating netback on a per boe basis, as petroleum and natural gas sales less royalties, operating costs and transportation costs. Operating netback is a key industry benchmark and a measure of performance for 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 NCIB and expected share buybacks thereunder, Tenaz's capital plans, activities and budget for 2022 and 2023, expected well performance, forecasted average production volumes and capital expenditures for 2022 and 2023, 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 continued performance of Tenaz's oil and gas properties in a manner consistent with its past experiences; that Tenaz will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Tenaz's reserves and resource volumes; certain commodity price and other cost assumptions; the continued availability of oilfield services; and the continued availability of adequate debt and equity financing and cash flow from operations to fund its planned expenditures.

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 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 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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