

TENAZ ENERGY CORP. ANNOUNCES Q1 2023 RESULTS



CALGARY, AB, May 15, 2023 /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 months ended March 31, 2023.

The unaudited interim condensed consolidated financial statements and related management’s discussion and analysis (“MD&A”) are available on SEDAR at www.sedar.com and on Tenaz’s website at www.tenazenergy.com. Selected financial and operating information for the three months ended March 31, 2023 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.

HIGHLIGHTS

First Quarter Operating and Financial Results

- Production volumes averaged 2,337 boe/d¹ in Q1 2023, up 54% from Q4 2022 and 132% from Q1 2022. The production increase was due to the acquisition of Netherlands assets at the end of 2022 and continued organic growth in our Canadian assets.
- Funds flow from operations (“FFO”)² for the first quarter was \$7.3 million, up 125% from Q4 2022 and 633% from Q1 2022. Higher 2023 funds flow from operations resulted from contributions from the new Netherlands assets.
- Free cash flow² in Q1 2023 was \$6.6 million, compared to negative free cash flow of \$1.8 million in Q4 2022. The improvement was driven by contributions from both our Netherlands and Canadian assets.
- Net income for Q1 2023 was \$2.9 million, as compared to \$0.7 million in Q4 2022, an increase that was the result of both higher operating netback² and higher production. Q1 2023 net income was lower than net income of \$3.5 million in Q1 2022, due to a \$4.2 million impairment reversal which occurred in Q1 2022.
- We ended the quarter with positive adjusted working capital² of \$18.8 million, an increase of \$4.7 million over year-end 2022 as a result of the free cash flow² generated in Q1 2023.
- Our Normal Course Issuer Bid (“NCIB”) program retired 360,100 common shares (1.3% of basic common shares) at an average cost of \$2.27 per share during the first quarter of 2023. As of the end of April 2023, we have retired 926,200 shares at an average cost of \$1.95 per share.

Budget and Outlook

- Capital expenditures² during the first quarter totalled \$0.7 million. Annual guidance for capital expenditures remains unchanged at \$20 to \$24 million.
- Production for Q2 2023 may be modestly lower than Q1 2023 due to turnarounds in both Netherlands and Canada. Our planned 2023 Canada drilling program is expected to start in late Q2 or early Q3, with four gross (3.35 net) wells brought on production later in the year.
- Annual production guidance of 2,200 to 2,300 boe/d remains unchanged.

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 2023	Dec 31 2022	Mar 31 2022
FINANCIAL			
Petroleum and natural gas sales	17,926	10,852	6,201
Cash flow from operating activities	5,117	4,809	1,158
Funds flow from operations ⁽¹⁾	7,274	3,236	992
Per share – basic ⁽¹⁾⁽²⁾	0.26	0.11	0.03
Per share – diluted ⁽¹⁾	0.25	0.11	0.03
Net income	2,882	747	3,497
Per share – basic	0.10	0.03	0.12
Per share – diluted	0.10	0.03	0.12
Capital expenditures ⁽¹⁾	683	4,988	719
Adjusted working capital (net debt) ⁽¹⁾	18,763	14,044	20,995
Common shares outstanding (000)			
End of period – basic	27,733	28,093	28,458
Weighted average for the period – basic	27,917	28,242	28,457
Weighted average for the period – diluted	28,545	28,244	29,361
OPERATING			
<u>Average daily production</u>			
Heavy crude oil (bbls/d)	937	827	515
Natural gas liquids (bbls/d)	63	53	62
Natural gas (mcf/d)	8,022	3,843	2,579
Total (boe/d) ⁽²⁾	2,337	1,520	1,007
<u>(\$/boe)⁽²⁾</u>			
Petroleum and natural gas sales	85.23	77.59	68.44
Royalties	(6.28)	(11.12)	(10.38)
Transportation expenses	(3.41)	(2.60)	(1.57)
Operating expenses	(24.69)	(21.56)	(21.02)
Midstream income ⁽¹⁾	4.36	-	-
Operating netback ⁽¹⁾	55.21	42.31	35.47
BENCHMARK COMMODITY PRICES			
WTI crude oil (US\$/bbl)	76.11	82.63	94.29
WCS (CAD\$/bbl)	74.52	77.39	101.03
AECO daily spot (CAD\$/mcf)	3.24	5.23	4.52
TTF (CAD\$/mcf)	22.78	50.12	41.45

(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) 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

We are pleased to provide this update along with our results for the first quarter of 2023. We generated significant funds flow from operations (“FFO”)³ in Q1 2023 which was coupled with low seasonal capital expenditures³ (“CAPEX”). As a result, our positive adjusted working capital (net debt)³ position improved to \$18.8 million, providing further liquidity to assist in the financing of future acquisitions. We continue to focus our efforts towards our strategy of acquiring international upstream assets to provide full-cycle value additions for our shareholders.

Our Canadian asset at Leduc-Woodbend continues to produce as expected, with first quarter production of 1,560 boe/d, up from 1,423 boe/d in Q4 2022. Uptime was strong, and reservoir performance has continued to meet or exceed our expectations. Our Leduc-Woodbend production guidance for full-year 2023 remains as previously announced at 1,450 to 1,550 boe/d.

Our 2023 drilling program will commence in late Q2 or early Q3, with production contributions from the four (3.35 net) well program expected later in the second half of 2023. While the wells to be drilled in 2023 can be brought online within our overall existing facility capacity, part of our 2023 CAPEX will go toward localized facility modifications to optimize our producing operations and enhance long-term processing capabilities at Leduc-Woodbend.

Our Netherlands natural gas asset also performed as expected with high uptime and limited CAPEX activity. We continue to target production of approximately 750 boe/d for 2023.

Netherlands maintenance activity will increase beginning in Q2, though capital requirements could be lower than first projected at the time of the acquisition. At present, we are maintaining our CAPEX guidance range at \$4 to \$6 million for 2023. Our CAPEX plan for Netherlands contemplates production-enhancing workovers and recompletions, well hydraulics optimizations, and compression modifications, with no new drilling planned at present.

Neptune Energy, as operator of the L10 field in offshore Netherlands, continues to study the technical requirements and assess the commercial viability of carbon capture and storage (“CCS”). The project's proximity to other mature gas reservoirs allows for cooperation between potential CCS operators in the Dutch North Sea which may provide additional economies of scale. If commercially viable, the CCS project has the potential to store a significant amount of CO₂, with contemplated annual capacity of up to 5 million tonnes (“mt”) (0.55 mt net to Tenaz).

Our current asset portfolio is bearing fruit from our team's technical work, which is now being applied to both our operated assets in Canada and non-operated assets in Netherlands. The asset base currently within Tenaz has a quality set of development opportunities including:

- Organic development of the Leduc-Woodbend field which has a significant number of future drilling locations within the established reservoir boundaries.
- Longer-term development of discovered oil resource at production license F17a in the Netherlands, operated by Wintershall, which is currently being evaluated for the most effective development plan.
- Short- and medium-term projects to extend the producing life of our production licenses in the Dutch North Sea. Current natural gas prices have enhanced the economic viability of both tied-in fields and those that require additional gathering lines or new production installations.
- In most cases, our offshore processing facilities and gas transmission pipelines to shore have more than sufficient capacity to handle additional volumes from several discovered but not tied-in fields. These fields are not included in our reserve report under NI 51-101, but may be recordable as Contingent Resources. Tenaz has commissioned independent assessments of Contingent and Prospective Resources for our Netherlands assets.

To summarize our financial performance, Q1 2023 delivered record FFO³ due to strong well performance, high uptime in our two regions, supportive commodity prices and continued focus on cost control. Positive adjusted working capital (net debt)³ of \$18.8 million reflects the excess cash flow after deducting share repurchases for the period. The positive adjusted working capital balance does not reflect income earned on the NGT pipeline system, as cash is received from that investment through the payment of annual dividends. Including our undrawn bank credit facility, we now have more cash and available liquidity than we had at the time of the recapitalization of Altura in 2021. At the same time, our production is approximately 2.3x 2021 levels, our annualized FFO (based on Q1 2023) as compared to full-year 2021 is approximately 8.3x, and we have retired 3.3% of our shares under the NCIB.

³ 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.

Despite recent decreases in commodity prices, realized prices remain at levels that generate significant free cash and provide strong project returns. The spot price for TTF gas is \$14.22 per mcf, with a forward price for the remainder of 2023 at \$18.63 per mcf and calendar 2024 at \$24.01⁴. Our other major product is Canadian oil, where WTI is currently priced at approximately US\$70 per bbl and WCS differentials have contracted to US\$15.50 per bbl. While Canadian natural gas is a less-significant product in our mix, a meaningful portion of our AECO gas exposure is fixed for 2023 at prices well above current market levels.

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 goal today than at any time in Tenaz's history. Because commodity prices have receded from the highs of early 2022, asset sellers now have greater realism regarding their price expectations. Although we can make no guarantees with respect to timing, we are optimistic that we will be able to bring additional opportunities to fruition from the high-quality acquisition projects in our transaction pipeline.

/s/ Anthony Marino

President and Chief Executive Officer
May 15, 2023

⁴ As of close of markets on May 9, 2023.

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. 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".

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", "adjusted working capital (net debt)", "free cash flow", "midstream income" 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") as issued by the International Accounting Standards Board and sometimes referred to in this press release as Generally Accepted Accounting Principles ("GAAP"). 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 ("FFO")

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 plus income from associate and 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)	Q1 2023	Q4 2022	Q1 2022
Cash flow from operating activities	5,117	4,809	1,158
Change in non-cash operating working capital	907	(1,829)	(166)
Decommissioning liabilities settled	333	256	-
Income from associate	917	-	-
Funds flow from operations	7,274	3,236	992

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, 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)	Q1 2023	Q4 2022	Q1 2022
Exploration and evaluation expenditures	36	-	-
Property, plant and equipment expenditures	647	4,988	719
Capital expenditures	683	4,988	719

Free Cash Flow ("FCF")

Tenaz considers free cash flow to be a key measure of performance as it demonstrates the Company's excess funds generated after capital expenditures for potential shareholder returns, acquisitions, or growth in available liquidity. FCF is a non-GAAP financial measure most directly comparable to cash flows used in investing activities and is comprised of funds flow from operations less capital expenditures. A summary of the reconciliation of the measure, is set forth below:

(\$000)	Q1 2023	Q4 2022	Q1 2022
Funds flow from operations	7,274	3,236	992
Less: Capital expenditures	(683)	(4,988)	(719)
Free cash flow	6,591	(1,752)	273

Midstream Income

Tenaz considers midstream income an integral part of determining operating netback. Operating netbacks assists management and investors with evaluating operating performance. Tenaz's midstream income consists of the income from its associate, Noordtgastransport B.V. Under IFRS, investments in associates are accounted for using the equity method of accounting. Income from associate is Tenaz's share of the investee's net income and comprehensive income. Also see "Operating Netback" section below.

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) as at March 31, 2023 and December 31, 2022 is summarized as follows:

(\$000)	March 31, 2023	December 31, 2022
Current assets	48,546	72,317
Current liabilities	(29,813)	(58,749)
Net current assets	18,733	13,568
Exclude fair value of financial instruments	30	476
Adjusted working capital (net debt)	18,763	14,044

Operating Netback

Tenaz calculates operating netback on a dollar and 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 "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", "guidance", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "could", "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 press release contains forward-looking information and statements pertaining to: Tenaz's capital plans, activities and budget for 2023, and our anticipated operational and financial performance; expected well performance; expected economies of scale; forecasted average production volumes and capital expenditures for 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 press release reflect several material factors and expectations and assumptions of the Company including, without limitation: 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; 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 the Company's reserves volumes; certain commodity price, interest rate, inflation 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; 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.

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