# INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

**As at**

| ($000) | Note | **March 31 2023** | December 31 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **24,989** | 1,832 |
| Restricted cash | 4 | **17,282** | 59,091 |
| Accounts receivable | 11 | **5,337** | 10,251 |
| Prepaid expenses and deposits | | **878** | 1,099 |
| Derivative instruments | 11 | **60** | 44 |
| | | **48,546** | 72,317 |
| Exploration and evaluation assets | 5 | **14,996** | 14,706 |
| Property, plant and equipment | 6 | **101,594** | 104,275 |
| Right-of-use assets | | **11** | 12 |
| Investment in associate | 7 | **13,613** | 12,591 |
| **Total assets** | | **178,760** | 203,901 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Bank debt | 8 | **-** | 21,483 |
| Accounts payable and accrued liabilities | | **7,634** | 14,396 |
| Current portion of lease liabilities | | **73** | 66 |
| Taxes payable | 11 | **22,016** | 22,284 |
| Derivative instruments | 11 | **90** | 520 |
| | | **29,813** | 58,749 |
| Lease liabilities | | **36** | 59 |
| Decommissioning liability | 9 | **32,451** | 30,435 |
| Deferred taxes | | **42,807** | 43,287 |
| **Total liabilities** | | **105,107** | 132,530 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 10 | **63,006** | 63,831 |
| Warrants | | **3,203** | 3,203 |
| Contributed surplus | | **9,078** | 8,871 |
| Deficit | | **(1,643)** | (4,534) |
| Accumulated other comprehensive income | | **9** | - |
| **Total shareholders' equity** | | **73,653** | 71,371 |
| **Total liabilities and shareholders' equity** | | **178,760** | 203,901 |

| | |
|---|---|
| Subsequent events | 14 |

See accompanying notes to the interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME (unaudited)

| ($000, except per share amounts) | Note | Three months ended March 31 2023 | 2022 |
|---|---|---|---|
| **REVENUE** | | | |
| Petroleum and natural gas sales | | **17,926** | 6,201 |
| Royalties | | **(1,322)** | (940) |
| **Petroleum and natural gas revenue** | | **16,604** | 5,261 |
| **EXPENSES** | | | |
| Transportation | | **718** | 142 |
| Operating | | **5,193** | 1,905 |
| Income from associate | 7 | **(917)** | - |
| General and administrative | | **1,687** | 1,246 |
| Transaction costs | | **52** | - |
| Interest and financing, net of income | | **604** | 5 |
| Exploration and evaluation | | **441** | - |
| Foreign exchange gain | | **(39)** | - |
| (Gain) loss on derivative instruments | 11 | **(537)** | 994 |
| Share-based compensation | 10 | **191** | 312 |
| Depletion, depreciation and amortization | | **4,782** | 1,349 |
| Impairment reversal | | **-** | (4,240) |
| Accretion of decommissioning liability | 9 | **1,132** | 51 |
| **Total expenses** | | **13,307** | 1,764 |
| **Net income before income taxes** | | **3,297** | 3,497 |
| **Provision for income taxes** | | | |
| Current | | **1,635** | - |
| Deferred | | **(1,220)** | - |
| **Total income taxes** | | **415** | - |
| **Net income** | | **2,882** | 3,497 |
| **Other comprehensive income** | | | |
| Currency translation adjustments | | **9** | - |
| **Net comprehensive income** | | **2,891** | 3,497 |
| **Net income per share** | | | |
| Basic | 10 | **0.10** | 0.12 |
| Diluted | 10 | **0.10** | 0.12 |

See accompanying notes to the interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

**For the periods ended March 31**

| ($000) | Note | Share capital | Warrants | Contributed surplus | Deficit | AOCI[1] | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2022 | | 64,503 | 3,203 | 7,661 | (10,052) | - | 65,315 |
| Exercise of stock options | | 66 | - | (24) | - | - | 42 |
| Share-based compensation | | | | | | | |
| - Expensed | 10 | - | - | 312 | - | - | 312 |
| - Capitalized | 10 | - | - | 25 | - | - | 25 |
| Net income for the period | | - | - | - | 3,497 | - | 3,497 |
| Balance, March 31, 2022 | | 64,569 | 3,203 | 7,974 | (6,555) | - | 69,191 |
| | | | | | | | |
| Balance, December 31, 2022 | | 63,831 | 3,203 | 8,871 | (4,534) | - | 71,371 |
| Normal course issuer bid | 10 | (825) | - | - | 9 | - | (816) |
| Share-based compensation | | | | | | | |
| - Expensed | 10 | - | - | 191 | - | - | 191 |
| - Capitalized | 10 | - | - | 16 | - | - | 16 |
| Net income for the period | | - | - | - | 2,882 | - | 2,882 |
| Currency translation adjustments | | - | - | - | - | 9 | 9 |
| **Balance, March 31, 2023** | | **63,006** | **3,203** | **9,078** | **(1,643)** | **9** | **73,653** |

(1) Accumulated other comprehensive income ("AOCI")

See accompanying notes to the interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| | | Three months ended March 31 | |
|---|---|---|---|
| ($000) | Note | **2023** | 2022 |
| **OPERATING ACTIVITIES** | | | |
| Net income | | **2,882** | 3,497 |
| Items not involving cash: | | | |
| Share-based compensation | 10 | **191** | 312 |
| Depletion, depreciation and amortization | | **4,782** | 1,349 |
| Impairment reversal | | **-** | (4,240) |
| Income from associate | 7 | **(917)** | - |
| Accretion of decommissioning liability | 9 | **1,132** | 51 |
| Unrealized foreign exchange gain | | **(47)** | - |
| Unrealized (gain) loss on derivative instruments | 11 | **(446)** | 23 |
| Deferred taxes | | **(1,220)** | - |
| Decommissioning liabilities settled | 9 | **(333)** | - |
| Change in non-cash working capital | | **(907)** | 166 |
| **Cash flow from operating activities** | | **5,117** | 1,158 |
| **INVESTING ACTIVITIES** | | | |
| Exploration and evaluation asset expenditures | 5 | **(36)** | - |
| Property, plant and equipment expenditures | 6 | **(647)** | (719) |
| Restricted cash for security arrangements | 4 | **42,674** | - |
| Change in non-cash working capital | | **(1,774)** | (4,134) |
| **Cash flow used in investing activities** | | **40,217** | (4,853) |
| **FINANCING ACTIVITIES** | | | |
| Advance (repayment) of bank debt | 8 | **(21,483)** | - |
| Normal course issuer bid | 10 | **(816)** | - |
| Proceeds from the exercise of stock options | | **-** | 42 |
| Principal payments on lease liabilities | | **(16)** | (13) |
| **Cash flow from financing activities** | | **(22,315)** | 29 |
| **Foreign exchange gain (loss) on cash held in foreign currencies** | | **138** | - |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | | **23,157** | (3,666) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | | **1,832** | 25,470 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | | **24,989** | 21,804 |
| Cash interest paid | | **598** | 5 |
| Cash taxes paid | | **2,254** | - |

See accompanying notes to the interim condensed consolidated financial statements.

## 1. REPORTING ENTITY

Tenaz Energy Corp. (“Tenaz” or the “Company”) is an energy company focused on the acquisition and sustainable development of international oil and gas assets capable of returning free cash flow to shareholders. Tenaz has domestic operations in Canada along with offshore natural gas assets in the Netherlands. The domestic operations consist of a semi-conventional oil project in the Rex member of the Upper Mannville group at Leduc-Woodbend in central Alberta. The Netherlands natural gas assets are located in the Dutch sector of the North Sea. Tenaz is the corporation resulting from the amalgamation of Tenaz Energy Corp. and Altura Energy Inc. on October 15, 2021 under the *Business Corporations Act (Alberta)* (“ABCA”). The Company is headquartered in Calgary with its shares listed on the Toronto Stock Exchange (“TSX”) under the symbol “TNZ”. On May 12, 2022, following approval from the TSX, Tenaz’s common shares (“Common Shares”) were listed on the TSX and commenced trading at which time trading on the TSX Venture Exchange ceased (the “TSX Graduation”).

Tenaz's principal place of business is located at 1100, 605 5$^{th}$ Avenue SW, Calgary, Alberta, T2P 3H5.

## 2. BASIS OF PRESENTATION

These interim condensed consolidated financial statements (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2022.

These Financial Statements should be read in conjunction with Tenaz’s audited consolidated financial statements for the year ended December 31, 2022, which are available on SEDAR at www.sedar.com or on Tenaz’s website at www.tenazenergy.com.

These Financial Statements were approved by the Board of Directors on May 11, 2023.

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

### Acquisition of private company with Netherlands upstream and midstream assets

On December 20, 2022, pursuant to a Share Purchase Agreement, Tenaz completed the acquisition of 100% of the issued and outstanding shares of a private U.S. company with Netherlands upstream and midstream assets (the “Acquisition”).

During the three months ended March 31, 2023, no adjustments have been made to the preliminary purchase price allocation for the Acquisition. Upon finalizing the value of the net assets acquired, liabilities assumed and total consideration, adjustments may be required as values subject to estimate are finalized, including the finalization of income taxes for working capital adjustments affecting consideration.

### Use of judgments, estimates and assumptions

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

There have been no significant changes to the use of judgments, estimates, and assumptions since December 31, 2022, as detailed in Note 5 of the audited consolidated financial statements for the year ended December 31, 2022.

## 3. SEGMENTED INFORMATION

Following the Acquisition on December 20, 2022, Tenaz commenced business in the Netherlands through a wholly-owned subsidiary acquired with a Euro functional currency. Tenaz has a business unit structure designed to manage assets in each country in which the Company operates. Tenaz's operating segments derive its revenues solely from the production and sale of petroleum and natural gas. Tenaz has two key operating segments: Canadian business unit and the Netherlands business unit. Tenaz's Canadian business unit includes costs incurred at the Company's corporate head office located in Calgary, Alberta, Canada.

Tenaz's chief operating decision maker regularly reviews fund flows from operations generated by each of Tenaz's operating segments. Fund flows from operations is a similar measure of earnings that provides the chief operating decision maker with the ability to assess the profitability of each operating segment and, correspondingly, the ability of each operating segment to fund its share of decommissioning liabilities and capital investments.

| | | | Three months ended March 31 | |
|---|---|---|---|---|
| | | | **2023** | 2022 |
| ($000) | **Netherlands** | **Canada/ Corporate** | **Total** | **Canada/Total** |
| Total assets | 106,043 | 72,717 | **178,760** | 76,080 |
| Exploration and evaluation asset expenditures | 36 | - | **36** | - |
| Property, plant and equipment expenditures | 70 | 577 | **647** | 719 |
| Heavy crude oil | - | 6,754 | **6,754** | 4,681 |
| Natural gas liquids | 143 | 300 | **443** | 326 |
| Natural gas | 9,595 | 1,134 | **10,729** | 1,194 |
| Petroleum and natural gas sales | 9,738 | 8,188 | **17,926** | 6,201 |
| Royalties | - | (1,322) | **(1,322)** | (940) |
| Revenue | 9,738 | 6,866 | **16,604** | 5,261 |
| Transportation expenses | (282) | (436) | **(718)** | (142) |
| Operating expenses | (2,604) | (2,589) | **(5,193)** | (1,905) |
| Income from associate(1) | 917 | - | **917** | - |
| General and administrative expenses | (288) | (1,399) | **(1,687)** | (1,246) |
| Exploration and evaluation expenses | (441) | - | **(441)** | - |
| Current income taxes | (1,635) | - | **(1,635)** | - |
| Transaction costs | - | (52) | **(52)** | - |
| Interest and financing, net of income | - | (604) | **(604)** | (5) |
| Realized foreign exchange gain (loss) | - | (8) | **(8)** | - |
| Realized gain (loss) on derivative instruments | - | 91 | **91** | (971) |
| Funds flow from operations | 5,405 | 1,869 | **7,274** | 992 |

(1) Midstream income from Noordgastransport BV

*Reconciliation of funds flow from operations to net income*

| | Three months ended March 31 | |
|---|---|---|
| ($000) | **2023** | 2022 |
| Funds flow from operations | **7,274** | 992 |
| Unrealized foreign exchange gain (loss) | **47** | - |
| Unrealized gain (loss) on derivative instruments | **446** | (23) |
| Share-based compensation | **(191)** | (312) |
| Depletion, depreciation and amortization | **(4,782)** | (1,349) |
| Impairment reversal | **-** | 4,240 |
| Accretion of decommissioning liability | **(1,132)** | (51) |
| Deferred tax expense | **1,220** | - |
| Net income | **2,882** | **3,497** |

## 4. RESTRICTED CASH

At March 31, 2023, Tenaz held restricted cash of €11.8 million ($17.3 million) deposited with the operator as decommissioning security for Tenaz's interest in Netherlands assets, pursuant to decommissioning security agreements ("DSA") in place for the offshore Dutch North Sea licenses (December 31, 2022 - €40.9 million or $59.1 million restricted cash).

Under the DSAs, decommissioning security is calculated annually and posted by parties to licenses where the future costs of decommissioning are higher than the estimated future cash flows from producing assets. On February 28, 2023, the security required pursuant to the DSAs decreased from €40.9 million to €11.8 million.

## 5. EXPLORATION AND EVALUATION

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

| ($000) | **Total** |
|---|---|
| Balance, December 31, 2022 | 14,706 |
| Additions | 36 |
| Foreign exchange | 254 |
| **Balance, March 31, 2023** | **14,966** |
| **Netherlands** | **14,996** |

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

## 6. PROPERTY, PLANT AND EQUIPMENT

The following table reconciles Tenaz's PP&E:

| ($000) | **Developed and Producing Assets** | **Corporate Assets** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| Balance, December 31, 2022 | 132,496 | 277 | 132,773 |
| Additions | 612 | 35 | 647 |
| Share-based compensation (Note 10) | 16 | - | 16 |
| Decommissioning cost additions and change in estimates (Note 9) | 710 | - | 710 |
| Foreign exchange | 737 | - | 737 |
| **Balance, March 31, 2023** | **134,571** | **312** | **134,883** |
| **Depletion, depreciation, amortization and impairment** | | | |
| Balance, December 31, 2022 | (28,332) | (166) | (28,498) |
| Depletion and depreciation | (4,772) | (9) | (4,781) |
| Foreign exchange | (10) | - | (10) |
| **Balance, March 31, 2023** | **(33,114)** | **(175)** | **(33,289)** |
| **Carrying amounts** | | | |
| ($000) | | | |
| As at December 31, 2022 | 104,164 | 111 | 104,275 |
| Canada | 61,645 | 111 | 61,756 |
| Netherlands | 42,519 | - | 42,519 |
| **As at March 31, 2023** | **101,457** | **137** | **101,594** |
| **Canada** | **60,722** | **137** | **60,859** |
| **Netherlands** | **40,735** | **-** | **40,735** |

Estimated future development costs of $111.7 million (December 31, 2022 – $111.7 million) associated with the development of the Company's proved and probable oil and gas reserves were added to the Company's net book value in the depletion and depreciation calculations. In the period ended March 31, 2023, Tenaz capitalized costs directly attributable to property and equipment of $0.2 million which are included in the additions above (2022 – $0.2 million).

At March 31, 2023 and December 31, 2022, the Company had not identified any indicators of impairment.

## 7. INVESTMENT IN ASSOCIATE

Tenaz has the following associate at March 31, 2023 and December 31, 2022:

| **Name of associate** | **% Interest held** | **Jurisdiction** |
|---|---|---|
| Noordgastransport BV ("NGT") | 11.34% | Netherlands |

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

The following table reconciles the carrying amount of the investment in associate:

| ($000) | **Total** |
|---|---|
| Balance, December 31, 2022 | 12,591 |
| Income from associate | 917 |
| Foreign exchange | 105 |
| **Balance, March 31, 2023** | **13,613** |

Summarized financial information in respect of NGT includes:

| **As at**<br>($000) | **March 31**<br>**2023** | December 31<br>2022 |
|---|---|---|
| Total assets | **186,165** | 183,606 |
| Total liabilities | **(125,019)** | (132,450) |
| Net assets | **61,146** | 51,156 |
| Tenaz's share of net assets | **6,934** | 5,801 |

| | | **Three months ended**<br>**March 31** |
|---|---|---|
| ($000) | **2023** | 2022 |
| Total revenue | **19,945** | 20,335 |
| Net income | **8,086** | 5,237 |
| Tenaz's share of net income | **917** | - |

## 8. BANK DEBT

Bank debt is comprised of the following:

| As at<br>($000) | March 31<br>2023 | December 31<br>2022 |
|---|---|---|
| **Credit Facilities** | | |
| Operating Loan | - | 6,483 |
| Commercial Term Loan | - | 8,750 |
| EDC Term Loan | - | 6,250 |
| Total bank debt | - | 21,483 |

At March 31, 2023, Tenaz's credit facilities (the "Credit Facilities") with ATB Financial (the "Lender") consists of a revolving operating demand loan (the "Operating Loan") in the principal amount of up to $10.15 million (December 31, 2022 - $10.15 million) accruing interest at a rate of prime + 3.5% per annum and subject to redetermination at least annually with the next redetermination date expected to be held on or before May 31, 2023.

On March 10 2023, the following loans were repaid in full:

- a non-revolving facility in the principal amount of up to $8.75 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the "Commercial Term Loan"); and
- a non-revolving facility under Export Development Canada's Program in the principal amount of up to $6.25 million accruing interest at a rate of prime + 5.5% per annum until February 28, 2023 and prime + 7.5% per annum thereafter, repayable on or before April 30, 2023 (the "EDC Term Loan").

The Operating Loan is revolving, payable on demand and contains customary material adverse change clauses. The borrowing base of the Operating Loan is based on the Lenders' interpretation of Tenaz's estimated proved and probable oil and natural gas reserves and forecasted commodity prices. As a result, there can be no assurance as to the amount of available limit that will be determined at each scheduled review. The Operating Loan can be drawn in whole multiples of a minimum of $0.01 million, and letters of credit and/or letters of guarantee can be issued not exceeding an aggregate of $0.75 million.

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

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

Tenaz is subject to certain reporting and financial covenants including:

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

At March 31, 2023, Company was in compliance with all debt covenants. The working capital ratio as defined was 1.97:1 and the Company was compliant with the LMR covenant (7.84 at April 1, 2023).

## 9. DECOMMISSIONING LIABILITY

A reconciliation of the decommissioning liability is provided below:

| ($000) | |
|---|---|
| Balance, December 31, 2022 | 30,435 |
| Changes in abandonment timing and costs | 358 |
| Settled | (333) |
| Accretion | 1,132 |
| Changes in discount rates | 352 |
| Foreign exchange | 507 |
| **Balance, March 31, 2023** | **32,451** |
| **Canada** | **1,689** |
| **Netherlands** | **30,762** |

Tenaz calculated the present value of the decommissioning liability using a credit-adjusted risk-free rate, calculated using a credit spread of 11.4% as at March 31, 2023 (December 31, 2022 – 11.8%) added to risk-free rates based on long-term, risk-free government bonds. Tenaz's credit spread is determined using the Company's expected cost of borrowing at the end of the reporting period.

Tenaz has estimated the decommissioning liability based on current cost estimates of $62.3 million (December 31, 2022 - $61.3 million). Current cost estimates are inflated to the estimated time of abandonment using inflated cost estimates of $73.9 million (December 31, 2022 - $75.2 million).

The country specific rates used as inputs to inflate cost estimates and discount the obligations were as follows:

| | **March 31, 2023** | December 31, 2022 |
|---|---|---|
| **Risk-free rates** | | |
| Canada | **3.0%** | 3.3% |
| Netherlands | **2.4%** | 2.9% |
| **Inflation rates** | | |
| Canada | **1.7%** | 1.4% |
| Netherlands | **2.5%** | 2.9% |

## 10. SHARE CAPITAL

**Authorized**

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

**Issued and outstanding**

| | **Number of Common Shares** | **Amount ($000)** |
|---|---|---|
| Balance, December 31, 2022 | 28,093,174 | 63,831 |
| Normal course issuer bid | (360,100) | (825) |
| **Balance, March 31, 2023** | **27,733,074** | **63,006** |

*Normal Course Issuer Bid ("NCIB")*

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

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

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

| ($000, except as noted) | **Three months ended March 31 2023** | Year ended December 31 2022 |
|---|---|---|
| Share repurchase activities (number of Common Shares) | | |
| Shares repurchased | **(360,100)** | (454,900) |
| Amounts charged to: | | |
| Share capital | **(825)** | (1,035) |
| Retained earnings | **9** | 281 |
| Share repurchase cost | **816** | 754 |
| Average cost per share ($) | **2.27** | 1.66 |

**Long-term Incentive Plans**

***Stock Option Plan***

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

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

A summary of the Company's outstanding stock options at March 31, 2023 is presented below:

| | **Number of Stock Options** | **Weighted Average Exercise Price ($)** |
|---|---|---|
| Balance, December 31, 2022 | 1,530,500 | 2.70 |
| Forfeited | (5,500) | 3.86 |
| **Balance, March 31, 2023** | **1,525,000** | **2.70** |

The range of exercise prices for stock options outstanding and exercisable under the plan at March 31, 2023 is as follows:

| **Exercise Prices** | **Awards Outstanding** | | | **Awards Exercisable** | | |
|---|---|---|---|---|---|---|
| | **Quantity** | **Remaining contractual life (years)** | **Weighted Average Exercise Price ($)** | **Quantity** | **Remaining contractual life (years)** | **Weighted Average Exercise Price ($)** |
| **$2.70** | **1,525,000** | **3.6** | **2.70** | **508,700** | **3.6** | **2.70** |

***Tenaz Incentive Plan***

The Company is able to issue share-based long-term incentives pursuant to the Tenaz Incentive Plan (the "TIP") implemented in 2022. The TIP is administered by the Board of Directors or a committee of the Board. Directors, officers, employees and independent contractors of the Company and/or its affiliates (collectively, "Service Providers") are eligible to receive awards under the TIP. The purpose of the TIP is to: (i) promote the interest of Service Providers in the growth and development of the Company by providing such persons with the opportunity to acquire a proprietary interest in the Company; (ii) attract and retain valuable Service Providers to the Company through a competitive compensation program; and (iii) align the interests of Service Providers with those of Shareholders by devising a compensation program which encourages the long-term growth of the Company and returns to shareholders.

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

The following table summarizes the number of awards under the TIP:

| | Number of PSUs |
|---|---|
| Balance, December 31, 2022 | 179,500 |
| Forfeited | (1,500) |
| **Balance, March 31, 2023** | **178,000** |

The PSUs are subject to a performance factor on the annual vesting date which can be in the range of 0 to 2. This performance factor will be multiplied by the number of PSUs each employee holds at the time of vesting. The performance factor is determined by the Board of Directors based on the Company's performance during the vesting period.

At March 31, 2023, there were 1,070,307 Common Shares available for issuance under the TIP.

***Share-based Compensation***

| | | Three months ended March 31 |
|---|---|---|
| ($000) | **2023** | 2022 |
| Share-based compensation: | | |
| Options | **158** | 337 |
| PSUs | **49** | - |
| Total share-based compensation | **207** | 337 |
| Capitalized share-based compensation (Note 6) | **(16)** | (25) |
| Share-based compensation expensed | **191** | 312 |

**Weighted average Common Shares**

| | | Three months ended March 31 |
|---|---|---|
| ($000, except Common Shares and per share amounts) | **2023** | 2022 |
| **Net income – Basic and diluted** | **2,882** | 3,497 |
| **Weighted average Common Shares** | | |
| Basic | **27,916,594** | 28,457,407 |
| Diluted | **28,545,689** | 29,361,207 |
| **Net income per share** | | |
| Basic | **0.10** | 0.12 |
| Diluted | **0.10** | 0.12 |

Per share information is calculated on the basis of the weighted average number of Common Shares outstanding during the period. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. Diluted per share information is calculated using a method which assumes that any proceeds received by the Company upon the exercise of in-the-money stock options or warrants plus unamortized share-based compensation expense would be used to buy back Common Shares at the average market price for the period.

For the three months ended March 31, 2023, 1,525,000 outstanding stock options and no outstanding PSUs were excluded from the weighted average number of Common Shares as they were anti-dilutive (2022 – 1,680,500 stock options were excluded).

## 11. FINANCIAL INSTRUMENTS

At March 31, 2023, Tenaz's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, derivative instruments, accounts payable and accrued liabilities and lease liabilities.

**Risks associated with financial assets and liabilities**

Tenaz is exposed to credit risk, liquidity risk and market risk as part of its normal course of business.

***Credit Risk***

The majority of the credit exposure on accounts receivable at March 31, 2023, pertain to revenue for accrued March 2023 production volumes and receivables from joint interest partners. Tenaz primarily transacts with four Canadian and three Dutch oil and natural gas purchasers. The Canadian and Dutch customers typically remit amounts to Tenaz by the 25th day of the month following production. At March 31, 2023, 92% of total outstanding accounts receivable pertains to the top 7 purchasers. As at March 31, 2023, receivables for revenue were $5.1 million, which are included in accounts receivable (December 31, 2022 - $9.7 million). At March 31, 2023, Tenaz had a $0.04 million net joint venture receivable pertaining to capital expenditures that was settled in full subsequent to period end. For the three months ended March 31, 2023, the Company received approximately 95% of its revenue from 7 purchasers (2022 – 88% of its revenue from 4 purchasers).

At March 31, 2023 and December 31, 2022, the Company's trade receivables have been aged as follows:

| **As at**<br>($000) | **March 31**<br>**2022** | December 31<br>2022 |
|---|---|---|
| Current | **4,971** | 10,081 |
| 31 – 60 days | **366** | 169 |
| 61 – 90 days | **-** | - |
| > 90 days | **-** | 1 |
| Allowance for doubtful accounts | **-** | - |
| Total | **5,337** | 10,251 |

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

***Liquidity Risk***

Liquidity risk is the risk that Tenaz will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through its capital management (Note 12) and an actively managed operating and capital expenditure budgeting process.

Accounts payable and accrued liabilities are due in less than one year and amounts outstanding on the Credit Facilities, if any, are due on demand. At March 31, 2023, Tenaz had a current tax liability of $22.0 million related to the Netherlands operations, which is net of net of instalments paid to the Dutch Tax Authority. The $22.0 million liability consists of $4.9 million related to corporate income tax ("CIT") and state profit share ("SPS") along with $17.1 million owing as part of the temporary solidarity contribution imposed by the European Union. The Solidarity contribution is a tax on excess profits of energy companies due to the high price environment in 2022 and not payable until May 2024.

As at March 31, 2023, the Company was holding $25.0 million in cash and cash equivalents, $17.3 million in restricted cash (€11.8 million) and had $10 million available on undrawn Credit Facilities (Note 8).

Management believes that funds available from its credit and working capital facilities are adequate to settle the Company's financial liabilities and obligations as they come due.

As at March 31, 2023, the Company was in compliance with all its bank debt covenants.

***Market Risk***

Market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil and natural gas), foreign currency exchange risk and interest rate risk.

*Commodity Price Risk*

At March 31, 2023, Tenaz held the following crude oil and natural gas financial contracts:

| Period | Commodity | Type of Contract | Quantity | Pricing Point | Contract Price | Fair Value at March 31 2023 ($000) |
|---|---|---|---|---|---|---|
| **WCS vs WTI Basis Swap Contracts** | | | | | | |
| Apr 1/23—Dec 31/23 | Crude Oil | Swap | 200 bbls/d | WCS | WTI less USD $16.50 | (90) |
| **Natural Gas Swap Contracts** | | | | | | |
| Apr 1/23—Oct 31/23 | Natural Gas | Swap | 500 GJ/d | AECO 5A | CAD $2.85 | 60 |
| **Net derivative instrument liability** | | | | | | **(30)** |

If the forward price curves for WTI and AECO 5A increase or decrease by 10%, it is estimated that Tenaz's net income would change by approximately $0.06 million. The sensitivity is hypothetical and based on management's assessment of reasonably possible changes in commodity prices after the balance sheet date. The result of the sensitivity is not predictive of future performance. Changes in the fair value of risk management contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

*Foreign currency risk*

At March 31, 2023, Tenaz held no foreign exchange swaps as the foreign exchange swap held at December 31, 2022 ($0.4 million liability) matured in March 2023.

*Interest rate risk*

If interest rates were to increase or decrease by 1%, it is estimated that Tenaz's net income would change by approximately $0.04 million for the three months ended March 31, 2023.

**Derivative instruments**

The table below summarizes the fair values as at March 31, 2023 and December 31, 2022 on the balance sheet:

| ($000) | Commodity | Foreign exchange | March 31 2023 |
|---|---|---|---|
| Derivative instrument assets | 60 | - | **60** |
| Derivative instrument liabilities | (90) | - | **(90)** |
| Net financial derivative instrument asset (liability) | (30) | - | **(30)** |

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

The table below summarizes the gain (loss) on derivative instruments in net income:

| ($000) | Three months ended March 31 2023 | 2022 |
|---|---|---|
| **Realized gain (loss)** | | |
| Commodity contracts | **182** | (971) |
| Foreign exchange swaps | **(91)** | - |
| Realized gain (loss) on derivative instruments | **91** | (971) |
| **Unrealized gain (loss)** | | |
| Commodity contracts | **18** | (23) |
| Foreign exchange swaps | **428** | - |
| Unrealized gain (loss) on derivative instruments | **446** | (23) |
| (Gain) loss on derivative instruments | **537** | (994) |

## 12. CAPITAL MANAGEMENT

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

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

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

Management views adjusted working capital (net debt) as a key industry benchmark and measure to assess the Company's financial position and liquidity (Note 11). Adjusted working capital (net debt) is calculated as current assets less current liabilities, excluding the fair value of derivative instruments.

Adjusted working capital (net debt) at 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 derivative instruments | **30** | 476 |
| Adjusted working capital | **18,763** | 14,044 |

The Company has not paid or declared any dividends since the date of incorporation. Details of the Company's NCIB are described in Note 10. Details of the Company's restricted cash pertaining to decommissioning security for Tenaz's Netherlands assets are described in Note 4.

## 13. COMMITMENTS AND CONTINGENCIES

The Company's bank debt commitments at March 31, 2023 are described in Note 8.

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

## 14. SUBSEQUENT EVENTS

### TIP Awards

In April 2023, pursuant to the Tenaz Incentive Plan, the Company issued 660,000 PSUs to officers and employees of the Company, 42,500 DSUs to Directors of the Company and 65,000 RSUs to Directors and employees of the Company.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Marty Proctor
Chair

Anna Alderson
Independent Director

John Chambers
Independent Director

Mark Rollins
Independent Director

Anthony Marino
President and Chief Executive Officer and Director

### OFFICERS

Anthony Marino
President and Chief Executive Officer and Director

Bradley Bennett
Chief Financial Officer

Michael Kaluza
Chief Operating Officer

David Burghardt
Senior Vice President, Engineering

Jonathan Balkwill
Vice President, Business Development

Jennifer Russel-Houston
Vice President, Geoscience

### AUDITORS

KPMG LLP
Calgary, Alberta

### BANKERS

ATB Financial
Calgary, Alberta

### LEGAL COUNSEL

Lawson Lundell LLP
Calgary, Alberta

Torys LLP
Calgary, Alberta

### EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

### REGISTRAR & TRANSFER AGENT

Odyssey Trust Company
Calgary, Alberta

### STOCK TRADING

Toronto Stock Exchange (“TSX”)
Trading Symbol: **TNZ**

TENAZ ENERGY