

Topaz Announces Second Quarter 2022 Financial Results Which Provide The Eighth Consecutive Quarterly Cash Flow And Royalty Production Increases And An 8% Dividend Increase

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CALGARY, July 26, 2022 - [Topaz Energy Corp.](#) (TSX: TPZ) ("Topaz" or the "Company") is pleased to provide second quarter 2022 financial results and an 8% increase to its quarterly dividend. Select financial information is outlined below and should be read in conjunction with Topaz's interim condensed consolidated financial statements and related management's discussion and analysis for the three and six months ended June 30, 2022 and 2021 ("Interim Consolidated Financial Statements"), which are available on www.sedar.com and on Topaz's website at www.topazenergy.ca.

Second Quarter 2022 Highlights

- Generated the eighth consecutive quarter of growth in average royalty production and cash flow since Topaz's initial public offering in October 2020 ("IPO"). Q2 2022 cash flow and average royalty production are 4.0 times and 1.7 times higher, respectively, than the third quarter of 2020.
- Generated record cash flow of \$95.4 million, 29% higher than Q1 2022 and 156% higher than Q2 2021. Cash flow per share of \$0.67 grew 26% from Q1 2022 and was 109% higher than Q2 2021.
- Generated record free cash flow (FCF)⁽¹⁾ of \$94.1 million, 28% higher than Q1 2022 and 153% higher than Q2 2021. FCF per share basis⁽¹⁾⁽²⁾, Q2 2022 FCF⁽¹⁾ of \$0.66 increased 25% from Q1 2022 and 106% from Q2 2021.
- Average royalty production of 16,676 boe/d grew 3% from the prior quarter and 36% from the prior year. Total liquid production grew 8% from Q1 2022 driven by crude oil production attributed to the Keystone Royalty Corp. ("Keystone") which closed mid-way through the second quarter.
- Realized 100% utilization (81% fixed) and generated \$16.2 million in processing revenue and other income from the Company's assets, 4% higher than Q1 2022 and 20% higher than Q2 2021, which represents 43% of our second quarter dividend revenue streams, which include contractual inflation protection measures, underscore the reliability and sustainability of the Company's dividend.
- Topaz is pleased to announce an 8% increase to the quarterly dividend which represents the Company's fourth dividend increase to date (40% on a cumulative basis since the IPO) and a current dividend yield of 5.5%⁽¹¹⁾. The dividend increase reflects Topaz's balanced capital allocation strategy whereby the majority of Excess FCF⁽¹⁾ is expected to be allocated to the Company for sustainable, high-quality growth while continuing to provide modest and sustainable dividend increases.
- Updated 2022 guidance estimates⁽³⁾, incorporating YTD 2022 financial results, generate estimated 2022 Excess FCF⁽¹⁾ of \$173.0 million, with Topaz exiting 2022 with 0.2x net debt⁽¹⁾ to cash flow, before giving effect to incremental acquisitions.
- Topaz allocated 39% (\$37.4 million) of its second quarter cash flow to shareholder distributions; invested 15% (\$14.6 million) in cash royalty acquisitions; incurred \$1.3 million in capital expenditures; and reduced net debt⁽¹⁾ by over \$42.0 million. Topaz continues to evaluate a strong pipeline of acquisition opportunities and is focused on maintaining its financial flexibility and acquisition discipline in order to add high-quality assets at accretive metrics.
- During the second quarter, Topaz invested \$99.6 million in acquisitions including \$85.0 million for the acquisition of the Tamarack Valley royalty interests, paid through the issuance of 4.2 million Topaz shares, which provided 0.5 million gross acres of predominantly undeveloped land (including 0.3 million fee mineral title acres), along with 450 boe/d⁽⁹⁾ of royalty production; and \$14.6 million for the acquisition of gross overriding royalty interests in 129,000 gross acres of predominantly undeveloped land, supported by a \$20.0 million operator drilling commitment. The acquired royalty acreage, operated by Tamarack Valley and located through the Charlie Lake and Central Alberta resource plays, provides further strategic alignment and is estimated to generate revenue of \$1.0 to \$2.0 million initially, with a significant number of drilling locations expected to provide future growth.

Second Quarter 2022 Update

Financial Overview

- Topaz's record Q2 2022 cash flow of \$95.4 million is 2.6 times higher than the prior year and on a per share⁽²⁾ basis is higher than Q1 2022. The exceptional financial performance is attributed to 50% higher realized natural gas and 20% higher oil and natural gas liquids realized pricing as well as 3% production growth.
- Topaz ended the second quarter of 2022 with \$151.3 million of net debt⁽¹⁾, a 22% decrease from March 31, 2022, which represents 0.4x net debt⁽¹⁾ to Q2 2022 annualized cash flow.

Activity & Asset Performance Update

Q2 2022 Royalty Activity

- Q2 2022 average royalty production of 16,676 boe/d increased 3% from Q1 2022 (16,122 boe/d). Approximately 10% of the production increase is attributed to the Keystone acquisition which closed April 29, 2022, while the remainder is attributed to operator development which, as expected, was partially restricted due to spring break-up conditions limiting access to certain areas.
- Topaz continues to see strong development activity across its royalty portfolio. Topaz's strategic partners provide reliable capital development plans which cumulatively represent over \$1.5 billion of annual capital development on an overriding royalty acreage which in turn enables Topaz to provide a transparent royalty production outlook.
- In total during Q2 2022, the working interest operators on Topaz's royalty acreage spud 102 gross wells (approximately 100% of the 102 gross wells were brought on production⁽⁷⁾), and 112 gross wells were brought on production⁽⁷⁾ which represents a 26% decrease from the first quarter when 151 gross wells were spud, which is attributed to expected spring break-up access limitations. In addition, a total of 67 gross wells were reactivated to date in 2022 in response to the strong commodity price environment. These wells were not producing prior to Topaz acquiring the respective royalty interest.
- Based on planned operator drilling activity, Topaz expects to have 20 to 24 drilling rigs active on its royalty acreage in the third quarter⁽³⁾ following spring break-up conditions.
- Topaz's complementary fee mineral title royalty portfolio (0.5 million gross acres) provides upside optionality, particularly in high commodity prices. To date in 2022, 14 new leases have been executed across Topaz's fee mineral title acreage and 10 gross wells have been spud or licensed, including three wells targeting helium.

Q2 2022 Infrastructure Activity

- During the second quarter Topaz generated total processing revenue and other income of \$16.2 million, a 4% increase from the prior quarter (\$15.6 million) which is attributed to higher overall basin activity driven by strong commodity pricing.
- Topaz's average daily natural gas processing ownership capacity in Q2 2022 was 209.7 MMcf/d, 81% of which is covered by long-term take or pay contracts. Topaz's infrastructure assets are situated in Canada's premium plays with significant long-life reserves. During Q2 2022, Topaz's natural gas processing ownership capacity was 100% utilized, generating \$16.2 million of processing revenue from Topaz's ownership share of facilities in NEBC Montney and the Alberta Deep River (operated by Tourmaline), and Advantage's Glacier facility and NuVista's water management infrastructure, both located in the Montney. Topaz also generated \$3.3 million of other income in Q2 2022 attributed to its contractual interest in other Tourmaline-operated infrastructure.

Updated 2022 Guidance Estimates

- Topaz's 2022 guidance update maintains the Company's previously announced annual average royalty production of 16,500 to 16,700 boe/d. Based on YTD 2022 financial results and commodity pricing of \$5.00/mcf AECO and US\$4.00/MMBtu, the remainder of the year, Topaz's estimated 2022 EBITDA⁽¹⁾ range has increased 8% to \$342.0 to \$344.0 million. Based on 2022 estimated dividends of \$154.0 million (46% payout ratio⁽¹⁾), Topaz expects to generate \$171.0 to \$173.0 million of 2022 estimated cash flow, exiting 2022 with net debt⁽¹⁾ between \$69.0 and \$71.0 million, before giving effect to incremental acquisitions.

2022 Guidance Estimates⁽³⁾⁽¹²⁾

C\$5.00/mcf AECO / US\$90.00/bbl WTI / 0.77 US/CAD FX

\$mm except boe/d

Annual average royalty production (boe/d) ⁽⁴⁾	16,500 - 16,700
Royalty production natural gas weighting ⁽⁴⁾	~75%
EBITDA ⁽¹⁾	\$342 - \$344
Capital expenditures (excluding acquisitions) ⁽¹⁾	\$3 - \$4
Excess FCF ⁽¹⁾ (after interest & dividends)	\$171 - \$173
Dividends ⁽⁸⁾	\$154
Dividend payout ratio ⁽¹⁾	46 %
Year end 2022 net debt (before M&A) ⁽¹⁾	\$69 - \$71
Year end 2022 net debt to cash flow (before M&A) ⁽¹⁾	0.2x

H2 2022 EBITDA Guidance Sensitivity⁽³⁾⁽¹¹⁾

1% average royalty production change	+/- \$1.3 million
C\$0.50/mcf change in natural gas price	+/- \$4.4 million
US\$5.00/bbl change in crude oil price	+/- \$3.8 million
\$0.01 change in C\$/US\$ foreign exchange	+/- \$0.9 million

Third Quarter Dividend

- Topaz's Board has declared the Company's third quarter dividend of \$0.28 per share which is expected to be paid on September 30, 2022 to shareholders of record on September 15, 2022. The quarterly cash dividend is designated as an "eligible dividend" for Canadian income tax purposes.

Capital Allocation Strategy & Financial Flexibility

- Topaz's estimated 2022 dividend payout ratio⁽¹⁾ of 46%⁽³⁾ remains below the Company's targeted long-term payout ratio of 50% in order to retain Excess FCF⁽¹⁾ for self-funded M&A growth given the broad range of opportunities Topaz continues to identify. Topaz is well positioned for further sustainable dividend increases in 2022 and 2023.
- Topaz currently has \$485.0 million of available credit capacity⁽⁵⁾ and together with the estimated 2022 Excess FCF of \$173.0 million⁽³⁾, has significant capital available, while maintaining low leverage, to continue the execution of the Company's acquisition and dividend growth strategy.

Sustainability

- Topaz plans to release its 2021 Sustainability Report later in 2022 which will demonstrate the Company's sector-leading sustainability profile and will also discuss the overall sustainability of natural gas as beneficial to supporting an energy transition which is further supported by recent European Union rules which have labeled natural gas as climate-friendly. Topaz is well positioned to participate in the continued growth of premium Canadian natural gas, which is forecast to grow in all Energy Regulator scenarios; through the Company's royalty interest ownership in nearly all of Tourmaline's NEBO acreage⁽¹⁰⁾, well poised for growth alongside LNG Canada's west coast LNG export development.

Additional information

Additional information about Topaz, including the Interim Consolidated Financial Statements are available on SEDAR at www.sedar.com under the Company's profile, and on Topaz's website, www.topazenergy.ca.

Q2 2022 CONFERENCE CALL

Topaz will host a conference call tomorrow, Wednesday, July 27, 2022 starting at 9:00 a.m. MST (11:00 a.m. EST). To participate in the conference call, please dial 1-888-664-6392 (North American toll free) a few minutes prior to the call. Conference ID is 09649241.

ABOUT THE COMPANY

Topaz is a unique royalty and infrastructure energy company focused on generating FCF⁽¹⁾ growth and paying reliable and sustainable dividends to its shareholders, through its strategic relationship with Canada's largest and most active natural gas producer, Tourmaline, an investment grade senior Canadian E&P company, and leveraging industry relationships to execute complementary acquisitions from other high-quality energy companies, while maintaining its commitment to environmental, social and governance best practices. Topaz focuses on top quartile energy resources and assets best positioned to attract capital in order to generate sustainable long-term growth and profitability.

The Topaz royalty and energy infrastructure revenue streams are generated primarily from assets operated by natural gas producers with some of the lowest greenhouse gas emissions intensity in the Canadian senior upstream sector, including Tourmaline, which has received awards for environmental sustainability and conservation efforts. Certain of these producers have set long-term emissions reduction targets and continue to invest in technology to improve environmental sustainability.

Topaz's common shares are listed and posted for trading on the TSX under the trading symbol "TPZ" and it is included in the S&P/TSX Composite Index. This is the headline index for Canada and is the principal benchmark measure for the Canadian equity markets, represented by the largest companies on the TSX.

For further information, please visit the Company's website www.topazenergy.ca. Topaz's SEDAR filings are available at www.sedar.com.

NOTE REFERENCES

This news release refers to financial reporting periods in abbreviated form as follows: "Q2 2022" refers to the three months ended June 30, 2022; "YTD 2022" refers to the six months ended June 30, 2022; "Q1 2022" refers to the three months ended March 31, 2022; or "Q2 2021" refers to the three months ended June 30, 2021; and "YTD 2021" refers to the six months ended June 30, 2021.

1. See "Non-GAAP and Other Financial Measures".
2. Calculated using the weighted average number of basic common shares outstanding during the respective period.
3. See "Forward-Looking Statements".
4. See "Supplemental Information Regarding Product Types".
5. Topaz's \$700 million credit facility includes a \$200 million accordion feature which may be advanced by Topaz but is subject to agent consent.
6. May include non-producing injection wells.
7. Includes wells drilled during the current and previous periods on Topaz royalty acreage.
8. Topaz's dividends (and any future increase thereof) remain subject to board of director approval.
9. Comprised of 318 bbl/d of crude oil, 57 bbl/d of natural gas liquids and 449 mcf/d of natural gas production for the period ended December 31, 2021.
10. Topaz owned a royalty interest on all of Tourmaline's NEBC Montney acreage as at August 3, 2021 however Topaz does not own a royalty interest on any Tourmaline acreage acquired subsequently.
11. Current dividend yield of 5.5% calculated as the annualized third quarter dividend of \$1.12 per share divided by Topaz's 2022 closing price on the TSX of \$20.41 per share.
12. Management's assumptions underlying the Company's updated 2022 guidance estimates as disclosed in the Company's 2022 news release with revisions noted below:
 - i. Estimated average annual royalty production range of 16,500 to 16,700 boe/d in 2022;
 - ii. 2022 average commodity prices of: C\$5.00/mcf (AECO 5A), US\$90.00/bbl (NYMEX WTI), US\$18.00/bbl (WCS oil differential), US\$2.55/bbl (MSW oil differential) and US\$/CAD\$ foreign exchange 0.77;
 - iii. Increased variable lending rate to reflect recent and expected increases in the underlying rate;
 - iv. Does not give effect to incremental acquisitions; and
 - v. Topaz's outstanding financial derivative contracts included in its most recently filed MD&A.

Selected Financial Information

For the periods ended (\$000s) except per share	YTD 2022	YTD 2021	Q2 2022	Q1 2022	Q4 2021
Royalty production revenue	160,520	51,627	94,776	65,744	59,709
Processing revenue	25,985	21,033	12,907	13,078	12,906
Other income ⁽⁴⁾	5,820	6,060	3,300	2,520	3,061
Total	192,325	78,720	110,983	81,342	75,676
Cash expenses:					
Operating	(3,002)	(2,061)	(1,823)	(1,179)	(946)
Marketing	(1,128)	(493)	(669)	(459)	(463)
General and administrative	(2,913)	(2,292)	(1,334)	(1,579)	(1,281)
Realized loss on financial instruments	(11,673)	(1,728)	(9,658)	(2,015)	(3,004)
Interest expense	(4,047)	(380)	(2,111)	(1,936)	(1,648)
Cash flow	169,562	71,766	95,388	74,174	68,334
Per basic share ⁽¹⁾⁽²⁾	\$1.20	\$0.63	\$0.67	\$0.53	\$0.50
Per diluted share ⁽¹⁾⁽²⁾	\$1.20	\$0.62	\$0.66	\$0.53	\$0.50
Cash from operating activities	148,692	66,466	80,708	67,984	56,562
Per basic share ⁽¹⁾⁽²⁾	\$1.05	\$0.58	\$0.57	\$0.49	\$0.41
Per diluted share ⁽¹⁾⁽²⁾	\$1.05	\$0.58	\$0.56	\$0.48	\$0.41
Net income	60,881	6,274	49,473	11,408	16,276
Per basic share ⁽²⁾	\$0.43	\$0.05	\$0.35	\$0.08	\$0.12
Per diluted share ⁽²⁾	\$0.43	\$0.05	\$0.34	\$0.08	\$0.12
EBITDA ⁽⁷⁾	173,558	71,874	97,459	76,099	69,978
Per basic share ⁽¹⁾⁽²⁾	\$1.23	\$0.63	\$0.68	\$0.55	\$0.51
Per diluted share ⁽¹⁾⁽²⁾	\$1.22	\$0.62	\$0.68	\$0.54	\$0.51
FCF ⁽¹⁾	167,905	71,222	94,121	73,784	67,147
Per basic share ⁽¹⁾⁽²⁾	\$1.19	\$0.62	\$0.66	\$0.53	\$0.49
Per diluted share ⁽¹⁾⁽²⁾	\$1.18	\$0.62	\$0.66	\$0.53	\$0.49
FCF Margin ⁽¹⁾	87 %	90 %	85 %	91 %	89 %
Dividends paid	73,680	48,269	37,392	36,288	33,422
Per share ⁽¹⁾⁽⁶⁾	\$0.52	\$0.40	\$0.26	\$0.26	\$0.24
Payout ratio ⁽¹⁾	43 %	67 %	39 %	49 %	49 %

Excess FCF ⁽¹⁾	94,225	22,953	56,729	37,495	33,725
Capital expenditures	1,657	544	1,267	390	1,187
Acquisitions, excl. decommissioning obligations ⁽¹⁾	99,816	316,526	99,554	262	218,83
Weighted average shares - basic ⁽³⁾	140,986	114,689	142,494	139,461	136,39
Weighted average shares - diluted ⁽³⁾	141,883	115,252	143,471	140,289	137,16
Average Royalty Production ⁽⁵⁾					
Natural gas (mcf/d)	75,946	65,230	76,747	75,136	84,415
Light and medium crude oil (bbl/d)	1,426	313	1,562	1,289	1,086
Heavy crude oil (bbl/d)	1,192	177	1,191	1,194	1,091
Natural gas liquids (bbl/d)	1,124	644	1,133	1,116	966
Total (boe/d)	16,401	12,005	16,676	16,122	17,213
Realized Commodity Prices ⁽⁵⁾					
Natural gas (\$/mcf)	\$6.02	\$3.12	\$7.20	\$4.80	\$4.52
Light and medium crude oil (\$/bbl)	\$119.43	\$71.37	\$131.98	\$104.06	\$87.51
Heavy crude oil (\$/bbl)	\$107.64	\$60.59	\$119.09	\$96.10	\$73.23
Natural gas liquids (\$/bbl)	\$116.61	\$75.66	\$124.60	\$108.41	\$95.37
Total (\$/boe)	\$54.07	\$23.76	\$62.45	\$45.31	\$37.70
Benchmark Pricing					
Natural Gas					
AECO 5A (CAD\$/mcf)	\$5.99	\$3.14	\$7.24	\$4.74	\$4.66
Crude oil					
NYMEX WTI (USD\$/bbl)	\$101.35	\$62.52	\$108.41	\$94.38	\$77.19
Edmonton Par (CAD\$/bbl)	\$126.95	\$73.06	\$138.03	\$115.94	\$93.45
WCS differential (USD\$/bbl)	\$13.73	\$11.96	\$12.91	\$14.61	\$14.80
Natural gas liquids					
Edmonton Condensate (CAD\$/bbl)	\$128.77	\$77.57	\$137.38	\$120.24	\$98.68
CAD\$/USD\$	\$0.7866	\$0.8023	\$0.7834	\$0.7899	\$0.793
Selected statement of financial position results (\$000s) except share amounts			At Jun. 30, 2022	At Mar. 31, 2022	At Dec. 31, 2021
Total assets			1,641,508	1,568,256	1,611,111
Working capital			75,623	36,216	43,750
Adjusted working capital ⁽¹⁾					

Net debt (cash) ⁽¹⁾	151,316	193,863	233,65
Common shares outstanding ⁽³⁾	143,824	139,570	139,33

⁽¹⁾ Refer to "Non-GAAP and Other Financial Measures".

FORWARD-LOOKING STATEMENTS

⁽²⁾ Calculated using basic or diluted weighted average shares outstanding during the period.

This news release contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") that relate to the Company's current expectations and views of future events. These forward-looking statements relate to future events or the Company's future performance. Any statements that express, either explicitly or implicitly, as to 2022 plans, objectives, assumptions, or future events or performance (often, but not always, through the use of words such as "will likely result", "are expected to", "expects", "will continue", "is anticipated", "anticipates", "believes", "estimated", "intends", "plans", "forecast", "projection", "strategy", "objective" and "outlook") are not historical facts and may be forward-looking statements and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this news release should not be unduly relied upon. These statements speak only as of the date of this news release. In particular and without limitation, this news release contains forward-looking statements pertaining to the following: Topaz's future growth outlook and strategic plans; the anticipated capital expenditure plans; expected production increases and capital commitments on the royalty lands; estimated levels of 2022 dividend payments, EBITDA, FCF, Excess FCF, dividend payout ratio and year-end net debt; the number of drilling rigs to be active on Topaz's royalty acreage during 2022 and beyond; the future declaration and payment of dividends and the timing and amount thereof including potential sustainable dividend increases in 2022 and 2023; the use of Excess FCF for self-funded M&A growth; Topaz's inflationary protection due to the nature of its business and its limited exposure to rising interest rate costs; the timing for the release of Topaz's Sustainability Report; the forecasts described under the heading "Second Quarter 2022 Update" above including under the sub-headings "Updated 2022 Guidance Estimates", "Third Quarter Dividend" and "Capital Allocation Strategy & Financial Flexibility", including annual average royalty production, processing revenue and other income, EBITDA, FCF, Excess FCF, FCF margin, annual dividends, exit net debt, and capital expenditures (excluding acquisitions) for 2022; other expected benefits from acquisitions including enhancing Topaz's future growth outlook and capital allocation plans; and the Company's business as described under the heading "About the Company" above.

⁽³⁾ Cumulative dividend paid per outstanding shares on quarterly dividend dates.

⁽⁴⁾ Defined term under the Company's Syndicated Credit Facility.

Forward-looking statements are based on a number of assumptions including those highlighted in this news release and is subject to a number of risks and uncertainties, many of which are beyond the Company's control, which could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking statements.

Such risks and uncertainties include, but are not limited to, the failure to complete acquisitions on the terms or on the timing announced or at all and the failure to realize some or all of the anticipated benefits of acquisitions including estimated royalty production, royalty production revenue and FCF per share growth, and the factors discussed in the Company's recently filed Management's Discussion and Analysis (See "Business Environment" and "Advisories and Forward-Looking Statements" therein), 2021 Annual Information Form (See "Risk Factors" and "Forward-Looking Statements" therein) and other reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or Topaz's website (www.topazenergy.ca).

Statements relating to "reserves" are also deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

Without limitation of the foregoing, future dividend payments, if any, and the level thereof is uncertain, as the Company's dividend policy and the funds available for the payment of dividends from time to time is dependent upon, among other things, FCF, financial requirements for the Company's operations and the execution of its growth strategy, fluctuations in working capital and the timing and amount of capital expenditures, debt service requirements and other factors beyond the Company's control. Further, the ability of Topaz to pay dividends will be subject to applicable laws (including the satisfaction of the solvency test contained in applicable corporate legislation) and contractual restrictions contained in the instruments governing its indebtedness, including its credit facility.

Topaz does not undertake any obligation to update such forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable law.

FINANCIAL OUTLOOK

Also included in this news release are estimates of the Company's EBITDA range and average royalty production range for the year ending December 31, 2022 and range of year-end exit net debt and net debt to cash flow for 2022, which are based on, among other things, the various assumptions as to production levels and capital expenditures and other assumptions disclosed in this news release including under the heading "Second Quarter 2022 Update - Updated 2022 Guidance Estimates" above and are based on the following key assumptions: Topaz's estimated capital expenditures (excluding acquisitions) of \$3.0 to \$4.0 million in 2022; the working interest owners' anticipated 2022 capital plans attributable to Topaz's undeveloped royalty lands; estimated average annual royalty production range of 16,500 to 16,700 boe/d in 2022; H2 2022 average infrastructure ownership capacity utilization of 95%; December 31, 2022 exit net debt range between \$69.0 and \$71.0 million, 2022 average commodity prices of: C\$5.00/mcf (AECO 5A), US\$90.00/bbl (NYMEX WTI), US\$18.00/bbl (WCS oil differential), US\$2.55/bbl (MSW oil differential) and US\$/CAD\$ foreign exchange 0.77.

To the extent such estimates constitute financial outlooks, they were approved by management and the board of directors of Topaz on July 26, 2022 and are included to provide readers with an understanding of the estimated EBITDA, Excess FCF and net debt for the year ending December 31, 2022 based on the assumptions described herein and readers are cautioned that the information may not be appropriate for other purposes.

NON-GAAP AND OTHER FINANCIAL MEASURES

Certain financial terms and measures contained in this news release are "specified financial measures" (as such term is defined in National Instrument 52-112 - Non-GAAP and Other Financial Measures Disclosure ("NI 52-112")). The specified financial measures referred to in this news release are comprised of "non-GAAP financial measures", "capital management measures" and "supplementary financial measures" (as such terms are defined in NI 52-112). These measures are defined, qualified, and where required, reconciled with the nearest GAAP measure below.

Non-GAAP Measures

The non-GAAP financial measures used herein do not have a standardized meaning prescribed by GAAP. Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that the non-GAAP financial measures should not be considered in isolation nor as an alternative to net income (loss) or other financial information determined in accordance with GAAP, as an indication of the Company's performance.

Non-GAAP Financial Measures

This news release makes reference to the terms "Excess FCF" and "acquisitions, excluding decommissioning obligations", which are considered non-GAAP financial measures under NI 52-112; defined as financial measures disclosed by an issuer that depict the historical or expected future financial performance, financial position, or cash flow of an entity, and are not disclosed in the financial statements of the issuer.

Other Financial Measures

Capital management measures

Capital management measures are defined as financial measures disclosed by an issuer that are intended to enable an individual to evaluate the entity's objectives, policies and processes for managing the entity's capital, are not a component of a line item or a line item on the primary financial statements, and which are disclosed in the notes to the financial statements. The Company's capital management measures disclosed in the notes to the Interim Consolidated Financial Statements include adjusted working capital, net debt (cash) and FCF.

Supplementary financial measures

This news release makes reference to the terms "cash flow per basic or diluted share", "FCF per basic or diluted share", "EBITDA per basic or diluted share", "FCF margin" and "payout ratio" which are all considered supplementary financial measures under NI 52-112; defined as a financial measure disclosed by an issuer that is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial

performance, financial position or cash flow of an entity, is not disclosed in the financial statements of the issuer, and is not a non-GAAP financial measure or non-GAAP ratio.

The following terms are financial measures as defined under the Company's Syndicated Credit Facility, presented in note 8 to the Interim Consolidated Financial Statements: (i) consolidated senior debt, (ii) total debt, (iii) EBITDA and (iv) capitalization.

Cash flow, FCF, FCF margin, and Excess FCF

Management uses cash flow, FCF, FCF margin and Excess FCF for its own performance measures and to provide investors with a measurement of the Company's efficiency and its ability to generate the cash necessary to fund or increase dividends, fund future growth opportunities and/or to repay debt; and furthermore, uses per share metrics to provide investors with a measure of the proportion attributable to the basic or diluted weighted average common shares outstanding.

Cash flow is a GAAP measure which is derived of cash from operating activities excluding the change in non-cash working capital and is presented in the consolidated statements of cash flows. FCF is a capital management measure presented in the notes to the Interim Consolidated Financial Statements and is defined as cash flow, less capital expenditures. The supplementary financial measure "FCF margin", is defined as FCF divided by total revenue and other income (expressed as a percentage of total revenue and other income). The non-GAAP financial measure "Excess FCF", is defined as FCF less dividends paid. The supplementary financial measures "cash flow per basic or diluted share" and "FCF per basic or diluted share" are calculated by dividing cash flow and FCF, respectively, by the basic or diluted weighted average common shares outstanding during the period.

A summary of the reconciliation from cash from operating activities (per the consolidated statements of cash flows) to cash flow (per the consolidated statements of cash flows), cash flow per basic or diluted share, FCF, Excess FCF, FCF per basic or diluted share and FCF margin is set forth below:

	Three months ended		Six months ended	
For the periods ended (\$000s)	Jun. 30, 2022	Jun. 30, 2021	Jun. 30, 2022	Jun. 30, 2021
Cash from operating activities	80,708	36,903	148,692	66,466
Exclude net change in non-cash working capital (14,680)	(312)	(312)	(20,870)	(5,300)
Cash flow	95,388	37,215	169,562	71,766
Less: Capital expenditures	1,267	(17)	1,657	544
FCF	94,121	37,232	167,905	71,222
Less: dividends paid	37,392	25,748	73,680	48,269
Excess FCF	56,729	11,484	94,225	22,953
Cash flow per basic share ⁽¹⁾	\$0.67	\$0.32	\$1.20	\$0.63
Cash flow per diluted share ⁽¹⁾	\$0.66	\$0.32	\$1.20	\$0.62
FCF per basic share ⁽¹⁾	\$0.66	\$0.32	\$1.19	\$0.62
FCF per diluted share ⁽¹⁾	\$0.66	\$0.32	\$1.18	\$0.62
FCF	94,121	37,232	167,905	71,222
Total Revenue and other income	110,983	40,953	192,325	78,720
FCF Margin	85 %	91 %	87 %	90 %

(1)	As noted, calculated using the basic or diluted weighted average number of shares outstanding during the respective periods.
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Adjusted working capital and net debt (cash)

Management uses the terms "adjusted working capital" and "net debt (cash)" to measure the Company's liquidity position and capital flexibility, as such these terms are considered capital management measures. "Adjusted working capital" is calculated as current assets less current liabilities, adjusted for financial instruments. "Net debt (cash)" is calculated as total debt outstanding less adjusted working capital.

A summary of the reconciliation from working capital, to adjusted working capital and net debt (cash) is set forth below:

(\$000s)	As at Jun. 30, 2022	As at Dec. 31, 2021
Working capital	75,623	43,750
Exclude fair value of financial asset (liability)	3,365	546
Adjusted working capital	72,258	43,204
Less: bank debt	223,574	276,862
Net Debt	151,316	233,658

EBITDA and EBITDA per basic or diluted share

EBITDA, as defined under the Company's Syndicated Credit Facility and disclosed in note 8 of the Interim Consolidated Financial Statements, is considered by the Company as a capital management measure which is used to evaluate the Company's operating performance, and provides investors with a measurement of the Company's cash generated from its operations, before consideration of interest income or expense. "EBITDA" is calculated as consolidated net income or loss from continuing operations, excluding extraordinary items, plus interest expense, income taxes, and adjusted for non-cash items and gains or losses on dispositions.

EBITDA per basic or diluted share is a supplementary financial measure that is calculated by dividing EBITDA by the basic or diluted weighted average common shares outstanding during the period and provides investors with a measure of the proportion of EBITDA attributed to the basic or diluted weighted average common shares outstanding.

A summary of the reconciliation of net income (per the consolidated statements of net income and comprehensive income), to EBITDA, is set forth below:

	Three months ended		Six months ended	
For the periods ended (\$000s)	Jun. 30, 2022	Jun. 30, 2021	Jun. 30, 2022	Jun. 30, 2021
Net income	49,473	918	60,881	6,274
Unrealized (gain) loss on financial instruments	(16,598)	3,953	(2,819)	3,746
Share-based compensation	138	326	287	654
Finance expense	2,272	345	4,367	601
Depletion and depreciation	49,802	32,114	95,745	59,826
Deferred income tax expense (recovery)	12,412	(221)	15,148	1,045
Less: interest income	(40)	(127)	(51)	(272)
EBITDA	97,459	37,308	173,558	71,874
EBITDA per basic share (\$/share)	\$0.68	\$0.32	\$1.23	\$0.63
EBITDA per diluted share (\$/share)	\$0.68	\$0.32	\$1.22	\$0.62

(1) As noted, calculated using the basic or diluted weighted average number of shares outstanding during the respective periods.

Payout ratio

"Payout ratio", a supplementary financial measure, represents dividends paid, expressed as a percentage of cash flow and provides investors with a measure of the percentage of cash flow that was used during the period to fund dividend payments. Payout ratio is calculated as cash flow divided by dividends paid.

A summary of the reconciliation from cash flow to payout ratio is set forth below:

	Three months ended		Six months ended	
For the periods ended	Jun. 30, 2022	Jun. 30, 2021	Jun. 30, 2022	Jun. 30, 2021
Cash flow (\$000s)	95,388	37,215	169,562	71,766
Dividends (\$000s)	37,392	25,748	73,680	48,269
Payout Ratio (%)	39 %	69 %	43 %	67 %

Acquisitions, excluding decommissioning obligations

"Acquisitions, excluding decommissioning obligations", is considered a non-GAAP financial measure, and is calculated as: acquisitions (per the consolidated statements of cash flows) plus non-cash acquisitions but excluding non-cash decommissioning obligations.

A summary of the reconciliation from acquisitions (per the consolidated statements of cash flow) to acquisitions, excluding decommissioning obligations is set forth below:

	Three months ended		Six months ended	
For the periods ended (\$000s)	Jun.30,2022	Jun.30,2021	Jun.30,2022	Jun.30,2021
Acquisitions (consolidated statements of cash flows)	14,769	134,492	15,031	290,526
Non-cash acquisitions	84,785	26,000	84,785	26,000
Acquisitions (excluding non-cash decommissioning obligations)	99,554	160,492	99,816	316,526

BOE EQUIVALENCY

Per barrel of oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent (6:1). Barrel of oil equivalents (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: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. In addition, as the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

OIL AND GAS METRICS

This news release contains certain oil and gas metrics which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included in this document to provide readers with additional measures to evaluate the Company's performance; however, such measures are not reliable indicators of the Company's future performance and future performance may not compare to the Company's performance in previous periods and therefore such metrics should not be unduly relied upon.

DRILLING LOCATIONS

This news release makes reference to future unbooked drilling locations. Unbooked drilling locations have been identified by management as an estimation of multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that unbooked drilling locations will be drilled and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which wells will actually be drilled, including the number and timing thereof is ultimately dependent upon the availability of funding, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While a certain number of the unbooked drilling locations have been derisked by drilling of existing wells in relative close proximity to such unbooked drilling locations, the majority of other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled, there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

MARKET, INDEPENDENT THIRD-PARTY AND INDUSTRY DATA

Certain market, independent third-party and industry data contained in this news release is based upon information from government or other independent industry publications and reports or based on estimates derived from such publications and reports. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but the Company has not conducted its own independent verification of such information. This news release also includes certain data, including production, well count estimates, capital expenditures and other operational results, derived from public filings made by independent third parties. While the Company believes this data to be reliable,

market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. The Company has not independently verified any of the data from independent third-party sources referred to in this news release or ascertained the underlying assumptions relied upon by such sources.

INFORMATION REGARDING PUBLIC-ISSUER COUNTERPARTIES

Certain information contained in this news release relating to the Company's public issuer counterparties is taken from and based solely upon information published by such issuers. The Company has not independently verified the accuracy or completeness of any such information.

General

See also "Advisories and Forward-Looking Statements" and "Non-GAAP and Other Financial Measures" in the most recently filed Management's Discussion and Analysis.

SUPPLEMENTAL INFORMATION REGARDING PRODUCT TYPES

This news release includes references to actual and 2022 estimated average royalty production. The following table is intended to provide supplemental information about the product type composition for each of the production figures that are provided in this news release:

For the periods ended	For the three months ended Jun. 30, 2022	For the three months ended Jun. 30, 2021	For the six months ended Jun. 30, 2022	For the six months ended Jun. 30, 2021
Average daily production				
Light and Medium crude oil (bbl/d)	1,562	340	1,426	313
Heavy crude oil (bbl/d)	1,191	303	1,192	177
Conventional Natural Gas (mcf/d)	40,817	41,535	40,409	41,689
Shale Gas (mcf/d)	35,930	24,190	35,537	23,540
Natural Gas Liquids (bbl/d)	1,133	668	1,124	644
Total (boe/d)	16,676	12,265	16,401	12,005
	Dec. 31, 2022			
For the year ended	(Estimate) ^(1,2)			
Average daily production				
Light and Medium crude oil (bbl/d)	1,413			
Heavy crude oil (bbl/d)	1,363			
Conventional natural gas (Mcf/d)	39,198			
Shale Gas (Mcf/d)	36,698			
Natural Gas Liquids (bbl/d)	1,175			
Total (boe/d)	16,600			
Natural gas weighting	76 %			
Total liquids weighting	24 %			

(1)	Represents the midpoint of the estimated range of 2022 average annual royalty production.
(2)	Topaz's estimated royalty production is based on estimated commodity mix; drilling location and corresponding royalty rate; and capital development activity on Topaz's royalty acreage by the working interest owners, all of which are outside of Topaz's control.

SOURCE [Topaz Energy Corp.](#)

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