

Topaz Announces Third Quarter 2022 Financial Results, Increased 2022 Guidance And Declares 7% Higher Fourth Quarter Dividend

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CALGARY, AB, Nov.1, 2022 /CNW/ - [Topaz Energy Corp.](#) (TSX: TPZ) ("Topaz" or the "Company") is pleased to provide financial results and increased 2022 guidance estimates to incorporate year to date financial results and recent acquisitions. 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 as at and for the three and nine months ended September 30, 2022 and 2021 ("Interim Consolidated Financial Statements"), which are available on SEDAR at www.sedar.com and on Topaz's website at www.topazenergy.ca.

Third Quarter 2022 Highlights

- Generated cash flow of \$77.9 million, free cash flow (FCF)⁽¹⁾ of \$77.0 million and a record FCF margin⁽¹⁾ of 94%. Cash flow and FCF⁽¹⁾ were 53% and 55% higher, respectively, relative to the prior year. On a per fully diluted share basis, third quarter 2022 FCF⁽¹⁾ was 39% higher than the prior year.
- Topaz's Board has declared the Company's fourth quarter dividend of \$0.30 per share which represents a 7% increase over the third quarter dividend and annualized, represents a 5.2% current yield⁽¹²⁾. Since inception in November 2019, Topaz has paid cumulative dividends of \$0.3 billion and increased its dividend five times. The fourth quarter annualized dividend of \$1.20 per share represents a 9.2% yield to Topaz's initial public offering share price.
- Average third quarter royalty production of 16,485 boe/d⁽⁴⁾ grew 9% from the prior year. Total liquids royalty production was 83% from the prior year, driven by 71% organic production growth from Topaz's Clearwater royalty interests that were acquired prior to Q3 2021. Third quarter Clearwater royalty production averaged 1,146 boe/d⁽⁵⁾ and is expected to average 1,200 boe/d⁽⁵⁾ during the fourth quarter (including the previously announced Clearwater royalty acquisition that closed September 30, 2022). Topaz holds Clearwater royalty interests in 0.7 million gross acres that are concentrated in Nipisi and Marten Hills, the most extensively delineated areas within the Clearwater, providing efficient, low-risk development opportunities that are well suited to enhanced recovery upside techniques. The underlying resource attributed to the Nipisi and Marten Hills areas is over 14.4 billion barrels of exploitable original oil in place ("OOIP")⁽¹⁰⁾. Topaz's concentrated royalty acreage in the Clearwater is estimated to hold the majority of the 13.7 billion barrels of OOIP⁽¹⁰⁾ that is accessible for development (not restricted by regulatory protection measures).
- Generated \$16.2 million in processing revenue and other income from the infrastructure assets, consistent with the third quarter 2021, which represents 40% of Topaz's third quarter dividend. Topaz's net ownership processing capacity realized 99% (80% of which was fixed under long-term take-or-pay) during the third quarter.
- During the third quarter, Topaz invested \$328.3 million in acquisitions which includes \$316.3 million for previously announced royalty interests across 0.3 million gross acres in the Clearwater, Peace River and Deep Basin areas of Alberta, and \$12 million for infrastructure assets which includes Topaz's 12.5% working interest share of an addition to the Glacier House acquisition of a 49.5% working interest in water management infrastructure assets operated by a new partner. In addition, Topaz has entered into agreements to invest up to \$8.0 million during the fourth quarter of 2022 and the option to invest up to \$10 million in 2023 in for final completion and future expansion of its water management assets. The infrastructure acquisition and future investment option provide progressive fixed processing fees to Topaz under long-term take-or-pay contractual arrangements.
- Increased 2022 guidance estimates⁽³⁾, incorporating YTD 2022 financial results and acquisition activity, provide a range of EBITDA⁽¹⁾ between \$354.0 and \$356.0 million; based on 2022 average annual royalty production ranging between 16,000 and 17,100 boe/d, the midpoint of which represents 21% growth over 2021; and \$64 to \$65 million of infrastructure processing revenue, the midpoint of which represents 9% growth over 2021.

Third Quarter 2022 Update

Financial Overview

- Topaz's Q3 2022 cash flow (\$77.9 million) and FCF⁽¹⁾ (\$77.0 million), growth of 53% and 55%, respectively, from were driven by 9% royalty production growth and significantly higher commodity pricing. During the third quarter 2022, Topaz generated a 94% FCF margin⁽¹⁾ which is 8% higher than the prior year and demonstrates the growth and inflation afforded by Topaz's business structure.
- Topaz's average natural gas price realized during the quarter was 43% lower than the prior quarter as WCSB natural gas experienced significant volatility during the period due to maintenance and expansion activities on mainline natural gas transmission infrastructure. Topaz uses financial derivative contracts to mitigate commodity price volatility which is highest in the summer and fall due to annual maintenance activities. On a financial basis, Topaz realized a \$3.5 million natural gas gain during the quarter which represents a \$0.50/mcf (12%) increase to Topaz's realized third quarter natural gas price.
- Topaz ended the third quarter of 2022 with \$440.0 million of net debt⁽¹⁾, a \$288.6 million increase from June 30, 2022, which represents borrowings against the Company's Syndicated Credit Facility to fund acquisitions completed during the quarter.

Activity & Asset Performance Update

Q3 2022 Royalty Activity

- Q3 2022 average royalty production of 16,485 boe/d decreased 1% from Q2 2022 (16,676 boe/d) due to planned maintenance activities that limited certain natural gas (and natural gas liquids) processing capability. Also, in response to gas price volatility, certain natural gas production was temporarily shut-in and start-up of certain new production was delayed until the fourth quarter when pricing is expected to normalize. At the end of the third quarter, 118 gross wells spud on Topaz's acreage in 2022 had not yet been brought on production.
- During the third quarter, the working interest operators on Topaz's royalty acreage spud 169 gross wells (approximately 16% increase from the prior quarter, when 149 gross wells⁽⁷⁾ were spud. During the third quarter, 118 gross wells were brought on production⁽⁸⁾, which includes 144 new gross wells spud and 25 gross wells that were reactivated in response to strong commodity pricing.
- To date in 2022, the working interest operators across Topaz's 6.1 million gross royalty acres⁽¹³⁾ have spud 408 gross wells, which is a 42% increase from the prior year when Topaz owned 15% less acreage (5.3 million gross royalty acres). In 2021, 92 gross wells have been reactivated, that were not on production when Topaz acquired the underlying royalty interest.
- Throughout the third quarter, Topaz had between 20 and 28 drilling rigs active across its royalty acreage and drilling activity is expected to increase during the fourth quarter. Topaz estimates its average fourth quarter royalty production will range from 18,400 boe/d and 18,600 boe/d⁽⁹⁾ based on operator planned activity levels⁽³⁾ and incorporating the royalty acquisitions closed at the end of the third quarter.

Q3 2022 Infrastructure Activity

- Topaz's average daily natural gas processing ownership capacity in Q3 2022 was 208.2 MMcf/d, 80% of which is attributable to long-term take or pay contracts. During Q3 2022, Topaz's natural gas processing ownership capacity was 99% utilized, generating \$13.1 million of processing revenue from Topaz's ownership share of natural gas processing facilities and associated management infrastructure. Topaz also generated \$3.1 million of other income in Q3 2022 attributed to its contractual arrangements with other Tourmaline-operated infrastructure.
- Topaz's year to date processing revenue of \$39.1 million has increased 16% from the prior year (\$33.8 million), which is attributable to 1% higher year to date utilization (99%), incremental investment, and certain fixed processing fee increases pursuant to the respective contractual arrangements.

Increased 2022 Guidance Estimates

- Topaz has increased its 2022 guidance estimates to incorporate the Company's year to date results and recent activity, including \$8.0 in fourth quarter infrastructure acquisitions, estimated 2022 annual average royalty production of 16,900 and 17,100 boe/d⁽⁴⁾ and total infrastructure income between \$64.0 and \$65.0 million. Based on a recent company forecast for the fourth quarter of 2022, Topaz's estimated 2022 EBITDA⁽¹⁾ range has increased to \$354.0 to \$356.0 million. Payment of 2022 estimated dividends of \$157.0 million (46% payout ratio⁽¹⁾), Topaz expects to generate \$182.0 million of Excess FCF⁽¹⁾, exiting 2022 with estimated net debt⁽¹⁾ between \$393.0 and \$397.0 million, before giving effect to incremental acquisitions.

Increased 2022 Guidance Estimates⁽³⁾⁽¹⁴⁾

Q4 2022 commodity pricing: October 27, 2022 strip

\$mm except boe/d

Annual average royalty production (boe/d) ⁽⁴⁾	16,900 - 17,100
Royalty production natural gas weighting ⁽⁴⁾	~75%
Infrastructure income	\$64 - \$65
EBITDA ⁽¹⁾	\$354 - \$356
Capital expenditures (excluding acquisitions) ⁽¹⁾	\$3 - \$4
Q4 2022 infrastructure acquisitions	\$8
Excess FCF ⁽¹⁾ (after interest and dividends, before M&A)	\$182 - \$184
Dividends ⁽¹¹⁾	\$157
Dividend payout ratio ⁽¹⁾	46 %
Year end 2022 net debt (before M&A) ⁽¹⁾	\$393 - \$397
Year end 2022 net debt to EBITDA (before M&A) ⁽¹⁾	1.1x

Fourth Quarter Dividend

- The fourth quarter dividend of \$0.30 per share is expected to be paid on December 30, 2022 to shareholders of record as of December 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 and 2023 dividend payout ratio⁽¹⁾ remains below the Company's targeted long-term payout ratio and provides significant Excess FCF⁽¹⁾ to repay debt and replenish credit capacity in order to maintain financial flexibility, acquire assets counter-cyclically or focus on infrastructure acquisitions during periods of high commodity prices.
- As at November 1, 2022, Topaz has \$225.0 million of credit capacity⁽⁶⁾ and estimates its 2022 exit net debt to EBITDA ratio to be 0.6 times which is estimated to reduce to approximately 0.6 times at the end of 2023, before giving effect to any incremental acquisitions.

Sustainability

- Topaz recently published its 2021 Sustainability Report which outlines the Company's sustainable investment strategy focused on developing partnerships with responsible operators and leveraging technical expertise to invest in top-tier, long-life, prolific plays supported by inflation-protected, commodity-resilient revenue streams. The report provides comprehensive performance metrics, including zero scope 1 and 2 emissions, that were developed in alignment with the Paris Agreement, the Task Force on Climate-Related Financial Disclosures (TCFD), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the World Economic Forum (WEF). Furthermore, Topaz's ESG reporting was enhanced through the adoption of the recommended disclosure framework of the Task Force on Climate-Related Financial Disclosures (TCFD) and third-party verification of certain performance metrics. The full report is available on Topaz's website (topazenergy.ca/responsibility).

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.

Q3 2022 CONFERENCE CALL

Topaz will host a conference call tomorrow, Wednesday, November 2, 2022 starting at 9:00 a.m. MST (11:00 a.m. EST).

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 35321397.

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: "Q3 2022" refers to the three months ended September 30, 2022; "YTD 2022" refers to the nine months ended September 30, 2022; "Q2 2022" refers to the three months ended June 30, 2022; or "Q3 2021" refers to the three months ended September 30, 2021; and "YTD 2021" refers to the nine months ended September 30, 2021.

1. See "Non-GAAP and Other Financial Measures".
2. Calculated using the weighted average number of diluted common shares outstanding during the respective period.
3. See "Forward-Looking Statements".
4. See "Supplemental Information Regarding Product Types".
5. Q3 2022 Clearwater royalty production of 1,146 boe/d comprised of 1,069 bbl/d of heavy oil, 441 MMcf/d of natural gas and 4 bbl/d of natural gas liquids. Fourth quarter midpoint estimate of 2,400 boe/d comprised of 2,360 bbl/d of heavy oil and 238 MMcf/d of natural gas.
6. Topaz's \$700 million credit facility includes a \$180 million accordion feature that is subject to agent consent.
7. May include non-producing injection wells.
8. Includes wells drilled during the current and previous periods on Topaz royalty acreage.
9. Fourth quarter midpoint estimate of 18,400 boe/d comprised of approximately 2,360 bbl/d of heavy oil, 80 MMcf/d of natural gas, 1,600 bbl/d of crude oil and 1,107 bbl/d of natural gas liquids.
10. Original oil in place estimates were internally generated using geological analysis and publicly available data.
11. Topaz's dividends (and any future increase thereof) remain subject to board of director approval.
12. Current dividend yield of 5.2% calculated as the annualized fourth quarter dividend of \$1.20 per share divided by Topaz's October 28, 2022 closing price on the TSX of \$23.00 per share.
13. Excludes any drilling activity on Deltastream acreage as the acquisition did not close until September 29, 2022.
14. Management's assumptions underlying the Company's increased 2022 guidance estimates include:
 - i. Topaz's estimated capital expenditures (excluding acquisitions) of \$3.0 to \$4.0 million in 2022;
 - ii. Estimated average annual royalty production range of 16,900 to 17,100 boe/d in 2022;
 - iii. Q4 2022 average infrastructure ownership capacity utilization of 95%;
 - iv. Q4 2022 average commodity prices based on a recent strip price forecast of: C\$5.67/mcf (AECO 5A), US\$87.90/bbl (NYMEX WTI), US\$25.44/bbl (WCS oil differential), US\$1.94/bbl (MSW oil differential) and US\$/CAD\$ foreign exchange 0.74;
 - v. The working interest owners' anticipated 2022 capital plans attributable to Topaz's undeveloped royalty lands including Topaz's internal estimates regarding development pace, production performance including, and capital allocated to waterflood and other long-term value enhancing projects;
 - vi. Increased variable lending rate to reflect recent and expected increases in the underlying rate;
 - vii. No incorporation of potential acquisitions; and
 - viii. 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	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Royalty production revenue	226,002	92,185	65,482	94,776	65,744	59,709	40,551
Processing revenue	39,083	33,814	13,098	12,907	13,078	12,906	12,781
Other income ⁽⁴⁾	8,919	9,864	3,099	3,300	2,520	3,061	3,804
Total	274,004	135,863	81,679	110,983	81,342	75,676	57,144
Cash expenses:							
Operating	(4,589)	(3,299)	(1,587)	(1,823)	(1,179)	(946)	(1,238)
Marketing	(1,548)	(848)	(420)	(669)	(459)	(463)	(355)
General and administrative	(4,612)	(3,770)	(1,699)	(1,334)	(1,579)	(1,281)	(1,478)
Realized gain (loss) on financial instruments	(9,049)	(3,986)	2,624	(9,658)	(2,015)	(3,004)	(2,258)
Interest expense	(6,716)	(1,353)	(2,669)	(2,111)	(1,936)	(1,648)	(973)
Cash flow	247,490	122,607	77,928	95,388	74,174	68,334	50,841
Per basic share ⁽¹⁾⁽²⁾	\$1.74	\$1.03	\$0.54	\$0.67	\$0.53	\$0.50	\$0.39
Per diluted share ⁽¹⁾⁽²⁾	\$1.73	\$1.02	\$0.54	\$0.66	\$0.53	\$0.50	\$0.39
Cash from operating activities	248,664	108,456	99,972	80,708	67,984	56,562	41,991
Per basic share ⁽¹⁾⁽²⁾	\$1.75	\$0.91	\$0.69	\$0.57	\$0.49	\$0.41	\$0.33
Per diluted share ⁽¹⁾⁽²⁾	\$1.74	\$0.90	\$0.69	\$0.56	\$0.48	\$0.41	\$0.32
Net income	80,261	11,288	19,380	49,473	11,408	16,276	5,014
Per basic share ⁽²⁾	\$0.57	\$0.09	\$0.13	\$0.35	\$0.08	\$0.12	\$0.04
Per diluted share ⁽²⁾	\$0.56	\$0.09	\$0.13	\$0.34	\$0.08	\$0.12	\$0.04
EBITDA ⁽⁷⁾	254,021	123,669	80,463	97,459	76,099	69,978	51,791
Per basic share ⁽¹⁾⁽²⁾	\$1.79	\$1.04	\$0.56	\$0.68	\$0.55	\$0.51	\$0.40
Per diluted share ⁽¹⁾⁽²⁾	\$1.78	\$1.03	\$0.56	\$0.68	\$0.54	\$0.51	\$0.40
FCF ⁽¹⁾	244,907	121,017	77,002	94,121	73,784	67,147	49,791
Per basic share ⁽¹⁾⁽²⁾	\$1.72	\$1.01	\$0.53	\$0.66	\$0.53	\$0.49	\$0.39
Per diluted share ⁽¹⁾⁽²⁾	\$1.72	\$1.01	\$0.53	\$0.66	\$0.53	\$0.49	\$0.38
FCF Margin ⁽¹⁾	89 %	89 %	94 %	85 %	91 %	89 %	87 %
Dividends paid	114,044	75,317	40,364	37,392	36,288	33,422	27,041
Per share ⁽¹⁾⁽⁶⁾	\$0.80	\$0.61	\$0.28	\$0.26	\$0.26	\$0.24	\$0.21
Payout ratio ⁽¹⁾	46 %	61 %	52 %	39 %	49 %	49 %	53 %

Excess FCF ⁽¹⁾	130,863	45,700	36,638	56,729	37,495	33,725	22,74
Capital expenditures	2,583	1,590	926	1,267	390	1,187	1,046
Acquisitions, excl. decommissioning obligations ⁽¹⁾	428,101	726,487	328,285	99,554	262	218,834	409,9
Weighted average shares - basic ⁽³⁾	142,004	119,427	144,008	142,494	139,461	136,391	128,7
Weighted average shares - diluted ⁽³⁾	142,735	120,028	144,728	143,471	140,289	137,167	129,4
Average Royalty Production ⁽⁵⁾							
Natural gas (mcf/d)	75,829	69,513	75,597	76,747	75,136	84,415	77,94
Light and medium crude oil (bbl/d)	1,456	389	1,516	1,562	1,289	1,086	538
Heavy crude oil (bbl/d)	1,224	351	1,288	1,191	1,194	1,091	693
Natural gas liquids (bbl/d)	1,110	729	1,081	1,133	1,116	966	897
Total (boe/d)	16,430	13,055	16,485	16,676	16,122	17,213	15,11
Realized Commodity Prices ⁽⁵⁾							
Natural gas (\$/mcf)	\$5.37	\$3.29	\$4.08	\$7.20	\$4.80	\$4.52	\$3.58
Light and medium crude oil (\$/bbl)	\$116.93	\$75.43	\$112.31	\$131.98	\$104.06	\$87.51	\$80.0
Heavy crude oil (\$/bbl)	\$101.99	\$65.36	\$91.69	\$119.09	\$96.10	\$73.23	\$67.7
Natural gas liquids (\$/bbl)	\$113.30	\$77.59	\$106.40	\$124.60	\$108.41	\$95.37	\$80.3
Total (\$/boe)	\$50.39	\$25.86	\$43.17	\$62.45	\$45.31	\$37.70	\$29.1
Benchmark Pricing							
Natural Gas							
AECO 5A (CAD\$/mcf)	\$5.99	\$3.31	\$4.16	\$7.24	\$4.74	\$4.66	\$3.60
Crude oil							
NYMEX WTI (USD\$/bbl)	\$101.35	\$64.83	\$91.56	\$108.41	\$94.38	\$77.19	\$70.5
Edmonton Par (CAD\$/bbl)	\$126.95	\$76.07	\$116.96	\$138.03	\$115.94	\$93.45	\$83.8
WCS differential (USD\$/bbl)	\$13.73	\$12.46	\$19.85	\$12.91	\$14.61	\$14.80	\$13.5
Natural gas liquids							
Edmonton Condensate (CAD\$/bbl)	\$128.77	\$79.84	\$112.49	\$137.38	\$120.24	\$98.68	\$86.4
CAD\$/USD\$	\$0.7866	\$0.7992	\$0.7660	\$0.7834	\$0.7899	\$0.7937	\$0.79
Selected statement of financial position results (\$000s) except share amounts			At Sept. 30, 2022	At Jun. 30, 2022	At Mar. 31, 2022	At Dec. 31, 2021	At Sep. 30, 2021
Total assets			1,875,465	1,641,508	1,568,256	1,611,752	1,455
Working capital			44,507	75,623	36,216	43,750	51,05
Adjusted working capital ⁽¹⁾							

72,258

Net debt (cash) ⁽¹⁾	439,954	151,316	193,863	233,658	219,4
Common shares outstanding ⁽³⁾	144,147	143,824	139,570	139,333	128,8

- (1) Refer to "Non-GAAP and Other Financial Measures".
- (2) As noted, calculated using basic or diluted weighted average shares outstanding during the period.
- (3) Shown in thousand shares outstanding.
- (4) Other income of \$3.1 million and \$8.9 million for Q3 2022 and YTD 2022, respectively, includes interest income of \$0.1 million and \$0.2 million, respectively (YTD 2021 - \$0.3 million, Q2 2022 - \$0.04 million, Q1 2022 - \$0.01 million, Q4 2021 - \$nil, and Q3 2021 - \$0.02 million).
- (5) Refer to "Supplemental Information Regarding Product Types."
- (6) Cumulative dividend paid per outstanding shares on quarterly dividend dates.
- (7) Defined term under the Syndicated Credit Facility.

FORWARD-LOOKING STATEMENTS

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, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases 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, 2022 and 2023 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; 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 forecasts described under the heading "Third Quarter 2022 Update" above including under the sub-headings "Increased 2022 Guidance Estimates", "Fourth Quarter Dividend" and "Capital Allocation Strategy & Financial Flexibility", including annual average royalty production, processing revenue and other income, EBITDA, FCF, annual dividends, exit net debt, and capital expenditures (excluding acquisitions) for various periods; 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.

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 EBITDA for 2022 and 2023, 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 "Third Quarter 2022 Update - Increased 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 16,900 to 17,100 boe/d in 2022; Q4 2022 average infrastructure ownership capacity utilization of 95%; Q4 2022 average commodity prices based on a recent strip price forecast of: C\$5.67/mcf (AECO 5A), US\$87.90/bbl (NYMEX WTI), US\$25.44/bbl (WCS oil differential), US\$1.94/bbl (MSW oil differential) and US\$/CAD\$ foreign exchange 0.74, combined with YTD 2022 realized commodity pricing resulting in 2022 average commodity prices of: C\$5.45/mcf (AECO 5A), US\$95.54/bbl (NYMEX WTI), US\$18.19/bbl (WCS oil differential), US\$1.80/bbl (MSW oil differential) and US\$/CAD\$ foreign exchange 0.77; and December 31, 2022 exit net debt range between \$393.0 and \$397.0 million,.

To the extent such estimates constitute financial outlooks, they were approved by management and the board of directors of Topaz on November 1, 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 and 2023 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		Nine months ended	
For the periods ended (\$000s)	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Cash from operating activities	99,972	41,990	248,664	108,456
Exclude net change in non-cash working capital	22,044	(8,851)	1,174	(14,151)
Cash flow	77,928	50,841	247,490	122,607
Less: Capital expenditures	926	1,046	2,583	1,590
FCF	77,002	49,795	244,907	121,017
Less: dividends paid	40,364	27,048	114,044	75,317
Excess FCF	36,638	22,747	130,863	45,700
Cash flow per basic share ⁽¹⁾	\$0.54	\$0.39	\$1.74	\$1.03
Cash flow per diluted share ⁽¹⁾	\$0.54	\$0.39	\$1.73	\$1.02
FCF per basic share ⁽¹⁾	\$0.53	\$0.39	\$1.72	\$1.01
FCF per diluted share ⁽¹⁾	\$0.53	\$0.38	\$1.72	\$1.01
FCF	77,002	49,795	244,907	121,017
Total Revenue and other income	81,679	57,143	274,004	135,863
FCF Margin	94 %	87 %	89 %	89 %

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

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 Sept. 30, 2022	As at Dec. 31, 2021
Working capital	44,507	43,750
Exclude fair value of financial asset	2,488	546
Adjusted working capital	42,019	43,204
Less: bank debt	481,973	276,862
Net Debt	439,954	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		Nine months ended	
For the periods ended (\$000s)	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Net income	19,380	5,014	80,261	11,288
Unrealized (gain) loss on financial instruments	877	(946)	(1,942)	2,800
Share-based compensation	408	362	695	1,016
Finance expense	2,858	1,090	7,225	1,691
Depletion and depreciation	51,408	45,379	147,153	105,205
Deferred income tax expense	5,666	915	20,814	1,960
Less: interest income	(134)	(19)	(185)	(291)
EBITDA	80,463	51,795	254,021	123,669
EBITDA per basic share (\$/share)	\$0.56	\$0.40	\$1.79	\$1.04
EBITDA per diluted share (\$/share)	\$0.56	\$0.40	\$1.78	\$1.03

(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		Nine months ended	
For the periods ended	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Cash flow (\$000s)	77,928	50,841	247,490	122,607
Dividends (\$000s)	40,364	27,048	114,044	75,317
Payout Ratio (%)	52 %	53 %	46 %	61 %

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		Nine months ended	
For the periods ended (\$000s)	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Acquisitions (consolidated statements of cash flows)	328,285	409,961	343,316	700,487
Non-cash acquisitions	?	?	84,785	26,000
Acquisitions (excl. non-cash decommissioning obligations)	328,285	409,961	428,101	726,487
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.

In particular, this news release makes reference to original oil in place ("OOIP") which means discovered petroleum initially in place ("DPIIP"). DPIIP is derived by internal Qualified Reserve Evaluators ("QRE") and prepared in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluations Handbook ("COGEH"). DPIIP, as defined in COGEH, is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of DPIIP includes production, reserves and resources other than reserves (ROTR). OOIP/DPIIP and potential recovery rate estimates are based on current recovery technologies. There is significant uncertainty as to the ultimate recoverability and commercial viability of any of the resource associated with OOIP/DPIIP, and as such a recovery project cannot be defined for a volume of OOIP/DPIIP at this time. "Internally estimated" means an estimate that is derived by internal QRE's and prepared in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. All internal estimates contained in this new release have been prepared effective as of June 30, 2022.

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 three months ended Sept. 30, 2022 Sept. 30, 2021

Average daily production

Light and Medium crude oil (bbl/d)	1,516	538
Heavy crude oil (bbl/d)	1,288	693
Conventional Natural Gas (mcf/d)	41,293	44,422
Shale Gas (mcf/d)	34,304	33,519
Natural Gas Liquids (bbl/d)	1,081	897
Total (boe/d)	16,485	15,119

For the nine months ended YTD 2022 YTD 2021

Average daily production

Light and Medium crude oil (bbl/d)	1,456	389
Heavy crude oil (bbl/d)	1,224	351
Conventional Natural Gas (mcf/d)	40,707	42,608
Shale Gas (mcf/d)	35,122	26,905
Natural Gas Liquids (bbl/d)	1,110	729
Total (boe/d)	16,430	13,055

Dec. 31, 2022

For the year ended

(Estimate)^(1,2)

Average daily production

Light and Medium crude oil (bbl/d) 1,496

Heavy crude oil (bbl/d) 1,580

Conventional natural gas (Mcf/d) 39,978

Shale Gas (Mcf/d) 36,698

Natural Gas Liquids (bbl/d) 1,145

Total (boe/d) 17,000

Natural gas weighting 75 %

Total liquids weighting 25 %

⁽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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