

Topaz Announces Second Quarter 2023 Financial Results, Declares Increased Third Quarter Dividend And Closing Of Tuck-in Core Area Acquisition

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CALGARY, July 31, 2023 - [Topaz Energy Corp.](#) (TSX: TPZ) ("Topaz" or the "Company") is pleased to announce financial results for the second quarter of 2023 as well as a \$0.04 per share increase to its annual dividend which is attributed to the sustained growth of the Company's revenue streams. Select financial information is outlined below and should be read in conjunction with the Company's interim consolidated financial statements and related management's discussion and analysis ("MD&A") as at and for the six months ended June 30, 2023, which are available on SEDAR+ at www.sedarplus.ca and on Topaz's website at www.topazenergy.ca.

Second Quarter 2023 Highlights

- Generated Q2 2023 revenue and other income of \$74.7 million (\$0.52 per basic and diluted share⁽²⁾), comprised of \$67.7 million (77%) of royalty production revenue and \$7.0 million (23%) of infrastructure processing revenue and other income.
- Generated cash flow of \$67.5 million (\$0.47 per basic and diluted share⁽²⁾), free cash flow (FCF)⁽¹⁾ of \$66.4 million (\$0.46 per basic and diluted share⁽²⁾) and an 89% FCF Margin⁽¹⁾.
- Royalty production averaged 18,411 boe/d⁽⁴⁾ in Q2 2023 and 18,647 boe/d⁽³⁾⁽⁴⁾⁽¹²⁾ YTD 2023 despite production reductions during the second quarter attributed to planned maintenance and unplanned shut-ins due to wildfires in Alberta and British Columbia.
- Topaz's full-year 2023 royalty production guidance of 18,300 - 18,800 boe/d⁽⁴⁾ remains unchanged and Topaz estimates 2023e processing revenue and other income will increase 6%⁽³⁾ from its previous annual estimate of \$65.0 million.
- Paid a \$0.30 per share dividend during the second quarter (\$1.20 per share annualized) which represents a 6.0% annualized yield to the second quarter average share price. On July 31, 2023, Topaz's Board approved a quarterly dividend increase to \$0.31 per share, effective for the third quarter dividend payment.
- Reduced net debt⁽¹⁾ \$53.5 million (13%) during the first half of 2023.
- On July 31, 2023, Topaz completed a \$39.5 million tuck-in acquisition of infrastructure and royalty assets in its core Lake and Clearwater operating areas which is expected to provide \$6.0 million of annual revenue⁽³⁾ before considering future royalty acreage development.

Second Quarter 2023 Update

Alberta and British Columbia Wildfire Impacts

- Intermittently during the second quarter, wildfires throughout Alberta and British Columbia required certain Topaz third-party infrastructure to be shut-in, and also restricted completion operations of certain operator development areas. Topaz estimates the wildfire-related issues reduced second quarter average royalty production of 18,411 boe/d⁽⁴⁾ by 300 boe/d (approximately 2%), reduced Topaz's infrastructure throughput utilization from 99% to 98% resulting in \$0.2 million of 2023 processing revenue, and contributed to fewer gross wells brought on production following drilling operations. No significant asset damage, production loss or injuries were reported due to strong safety protocols, exemplary personnel and risk-mitigating design of the respective operations. Topaz will continue to monitor wildfire impacts as wildfire response and facility maintenance may continue to impact Topaz through the third quarter.

2023 Guidance Update

- Topaz's 2023 annual royalty production guidance estimate between 18,300 and 18,800 boe/d⁽³⁾⁽⁴⁾⁽¹²⁾ remains unchanged. Topaz's 2023 estimated processing revenue and other income is expected to increase 6% from \$65.0 million to \$68.9 million⁽³⁾⁽¹²⁾, based on year-to-date financial results, certain inflationary processing fee increases, higher estimated third quarter production and recent acquisition activity. Based on current commodity pricing, Topaz expects to exit 2023 with net debt⁽¹⁾ of approximately \$340.0 million⁽³⁾⁽¹²⁾, a 16% decrease from exit 2022.

Financial Overview

- During Q2 2023, Topaz generated cash flow of \$67.5 million (\$0.47 per basic and diluted share⁽²⁾). Relative to the Q2 2023 AECO (5A) pricing was 24% lower and NYMEX WTI was 3% lower.
- During the second quarter Topaz paid \$43.4 million in dividends, a 64% payout ratio⁽¹⁾ and generated \$23.0 million FCF⁽¹⁾ (\$0.16 per basic and diluted share⁽²⁾) which was used to replenish credit capacity.
- Topaz exited Q2 2023 with \$352.4 million of net debt⁽¹⁾, \$24.1 million (6%) lower than Q1 2023 and \$53.5 million than YE 2022. As at July 31, 2023, Topaz has approximately \$600.0 million of available credit capacity⁽⁵⁾ which provides financial flexibility for strategic growth opportunities.

Royalty Activity

- Topaz's Q2 2023 royalty production increased 10% from the prior year to 18,411 boe/d⁽⁴⁾ (including record total liquids production of 5,484 bbl/d). During the second quarter, operators remained active across Topaz's royalty acreage with 11 gross wells (4.5 net) were spud⁽⁶⁾, a 4% increase in gross wells spud from the prior year. YTD 2023, 270 gross wells (116 net) were spud⁽⁶⁾ which represents a 13% increase in gross wells spud from the prior year. Through Q2 2023, completion activity was restricted by wildfires and seasonal conditions relative to the prior year. During Q2 2023, 68 gross wells (2.8 net) were spud⁽⁶⁾ during the quarter were not yet brought on production (Q2 2022 - 48 gross wells (1.4 net) of 11 net respectively).
- Average realized commodity prices (before hedging) for the second quarter were C\$2.38/mcf for natural gas, C\$95.10/bbl for crude oil and C\$81.90 for total liquids, generating \$57.7 million of royalty revenue. In addition, Topaz realized a \$1.2 million gain on financial instruments in Q2 2023. On a royalty production basis, the realized hedging gain increased the Q2 2023 cash flow by \$2.95/boe.
- Second quarter drilling activity (106 gross wells spud⁽⁶⁾) was diversified across Topaz's portfolio as follows: 51 Clearwater, 11 NEBC Montney, 11 Peace River, 1 West Central Alberta, and 12 SE Saskatchewan/Manitoba. YTD 2023, 167 gross wells spud⁽⁶⁾ (62%) across Topaz's royalty acreage were in the Clearwater and NEBC Montney, Topaz's high-growth areas. Average YTD 2023 royalty production from these combined areas has increased 21% from YTD 2022.
- Topaz continues to see a reliable and meaningful share of WCSB production and drilling activity across its royalty acreage. Through the first half of 2023, the operator working interest production across Topaz's royalty acreage represented approximately 8% of total WCSB production⁽¹⁰⁾, and during the first half of 2023, the 270 gross wells spud across Topaz's royalty acreage represented approximately 14% of the total rig releases across the WCSB⁽¹¹⁾. Based on planned operator activity, Topaz expects to maintain the current 26 to 28 active drilling rigs on its royalty acreage through the third quarter of 2023.

Infrastructure Activity

- Generated \$17.0 million in processing revenue and other income which was 2% lower than the prior quarter due to unplanned (wildfire-related) downtime. The infrastructure assets generated 98% utilization and an 82% operating margin during the second quarter. Processing revenue and other income was 5% higher than Q2 2022, attributed to high commodity prices and incremental fixed revenue generated from Topaz's water infrastructure assets.
- Topaz's contractual arrangements only require Topaz to pay its working interest share of operating expenses on a 50% of its natural gas processing capacity ownership. In Q2 2023, Topaz incurred \$3.0 million in operating expenses, an increase of \$1.1 million from Q1 2023 due to planned facility turnaround maintenance and includes costs initially for capital maintenance expenditures.

Acquisition Activity

- During the second quarter, Topaz incurred \$0.5 million in minor acquisition costs attributed to undeveloped royalty interests. On July 31, 2023, Topaz completed its previously announced tuck-in royalty and infrastructure acquisition for total consideration of \$39.5 million, before customary closing adjustments (the "Tuck-In Acquisition"). The Tuck-In Acquisition provides Topaz with a non-operated working interest in a newly constructed and commissioned 15 mmcf/d sweet natural gas processing facility associated 1,500 bbl/d crude oil battery in the Wembley area (the "Facility Interests") in addition to certain gross royalty interests on over 17,000 gross acres within the Charlie Lake and Clearwater operating areas in Alberta (the "Royalty Interests"). Topaz estimates the Facility Interests and Royalty Interests will provide approximately \$6.0 million of annual revenue to Topaz⁽³⁾, supported by 100%, 15-year fixed take-or-pay natural gas and crude oil processing agreements, which Topaz is not responsible for its ownership share of operating or maintenance costs. The Tuck-In Acquisition is funded through Topaz's existing credit facility.

Dividend

- Topaz's Board has approved a \$0.01 per share quarterly dividend increase and declared the third quarter 2023 dividend of \$0.31 per share which is expected to be paid on September 29, 2023 to shareholders of record on September 15, 2023. The increased annual dividend of \$1.24 per share⁽⁸⁾ provides a 5.8% yield to Topaz's current share price⁽⁷⁾ and the increase is attributed to the sustainable growth of the Company's revenue streams. The quarterly cash dividend is designated as a "eligible dividend" for Canadian income tax purposes.

- Topaz's 2023e dividend⁽⁸⁾ is sustainable down to low commodity prices due to the Company's low-cost, inflation-protected business structure as well as financial derivative contracts to mitigate price volatility. Topaz's estimated 2023 dividend ratio⁽¹⁾ of approximately 63%⁽³⁾ remains at the low end of the Company's targeted long-term payout ratio of 60-90% and the Company intends to retain Excess FCF⁽¹⁾ for self-funded M&A growth and further dividend increases.

Additional information

Additional information about Topaz, including the interim consolidated financial statements and management's discussion and analysis as at and for the three and six months ended June 30, 2023 are available on SEDAR+ at www.sedarplus.ca under the Company's profile, and on Topaz's website, www.topazenergy.ca.

Q2 2023 CONFERENCE CALL

Topaz will host a conference call tomorrow, Tuesday, August 1, 2023 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: 76435486.

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 Oil Corp.](#) ("Tourmaline"), an investment-grade senior Canadian E&P company, and leveraging its 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. Tourmaline 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 capital 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.sedarplus.ca.

Selected Financial Information

For the periods ended (\$000s) except per share	YTD 2023	YTD 2022	Q2 2023	Q1 2023	Q4 2022
Royalty production revenue	118,591	160,520	57,667	60,924	77,809
Processing revenue	26,968	25,985	13,397	13,571	13,841
Other income ⁽⁴⁾	7,306	5,820	3,616	3,690	3,993
Total	152,865	192,325	74,680	78,185	95,643
Cash expenses:					
Operating	(4,962)	(3,002)	(3,022)	(1,940)	(1,785)
Marketing	(684)	(1,128)	(315)	(369)	(486)
General and administrative	(3,392)	(2,913)	(1,823)	(1,569)	(1,828)
Realized gain (loss) on financial instruments	9,741	(11,673)	4,945	4,796	1,614
Interest expense	(14,325)	(4,047)	(6,987)	(7,338)	(6,885)
Cash flow	139,243	169,562	67,478	71,765	86,273
Per basic share ⁽¹⁾⁽²⁾	\$0.96	\$1.20	\$0.47	\$0.50	\$0.60
Per diluted share ⁽¹⁾⁽²⁾	\$0.96	\$1.20	\$0.47	\$0.50	\$0.60
Cash from operating activities	158,963	148,692	73,304	85,659	69,214
Per basic share ⁽¹⁾⁽²⁾	\$1.10	\$1.05	\$0.51	\$0.59	\$0.48
Per diluted share ⁽¹⁾⁽²⁾	\$1.10	\$1.05	\$0.51	\$0.59	\$0.48
Net income	17,259	60,881	9,366	7,893	19,094
Per basic share ⁽²⁾	\$0.12	\$0.43	\$0.06	\$0.05	\$0.13
Per diluted share ⁽²⁾	\$0.12	\$0.43	\$0.06	\$0.05	\$0.13
EBITDA ⁽⁷⁾	153,263	173,558	74,316	78,947	93,006
Per basic share ⁽¹⁾⁽²⁾	\$1.06	\$1.23	\$0.51	\$0.55	\$0.65
Per diluted share ⁽¹⁾⁽²⁾	\$1.06	\$1.22	\$0.51	\$0.54	\$0.64
FCF ⁽¹⁾	137,669	167,905	66,379	71,290	85,018
Per basic share ⁽¹⁾⁽²⁾	\$0.95	\$1.19	\$0.46	\$0.49	\$0.59
Per diluted share ⁽¹⁾⁽²⁾	\$0.95	\$1.18	\$0.46	\$0.49	\$0.59
FCF Margin ⁽¹⁾	90 %	87 %	89 %	91 %	89 %
Dividends paid	86,664	73,680	43,355	43,309	43,244
Per share ⁽¹⁾⁽⁶⁾	\$0.60	\$0.52	\$0.30	\$0.30	\$0.30
Payout ratio ⁽¹⁾	62 %	43 %	64 %	60 %	50 %

Excess FCF ⁽¹⁾	51,005	94,225	23,024	27,981	41,774
Capital expenditures	1,574	1,657	1,099	475	1,255
Acquisitions, excl. decommissioning obligations ⁽¹⁾	483	99,816	447	36	7,538
Weighted average shares - basic ⁽³⁾	144,387	140,986	144,438	144,336	144,153
Weighted average shares - diluted ⁽³⁾	144,931	141,883	144,990	144,943	144,976
Average Royalty Production ⁽⁵⁾					
Natural gas (mcf/d)	79,213	75,946	77,564	80,880	77,770
Light and medium crude oil (bbl/d)	1,722	1,426	1,717	1,727	1,704
Heavy crude oil (bbl/d)	2,539	1,192	2,582	2,496	2,512
Natural gas liquids (bbl/d)	1,182	1,124	1,185	1,179	1,170
Total (boe/d)	18,647	16,401	18,411	18,884	18,349
Realized Commodity Prices ⁽⁵⁾					
Natural gas (\$/mcf)	\$2.81	\$6.02	\$2.38	\$3.23	\$4.77
Light and medium crude oil (\$/bbl)	\$89.06	\$119.43	\$90.61	\$87.50	\$100.67
Heavy crude oil (\$/bbl)	\$67.66	\$107.64	\$73.87	\$61.15	\$72.33
Natural gas liquids (\$/bbl)	\$90.62	\$116.61	\$86.73	\$94.58	\$104.18
Total (\$/boe)	\$35.14	\$54.07	\$34.42	\$35.85	\$46.09
Benchmark Pricing					
Natural Gas					
AECO 5A (CAD\$/mcf)	\$2.84	\$5.99	\$2.45	\$3.23	\$5.11
Westcoast station 2 (CAD\$/mcf)	\$2.39	\$5.76	\$1.89	\$2.90	\$3.22
Crude oil					
NYMEX WTI (USD\$/bbl)	\$74.92	\$101.35	\$73.75	\$76.11	\$82.64
Edmonton Par (CAD\$/bbl)	\$97.52	\$126.95	\$95.52	\$99.55	\$110.32
WCS differential (USD\$/bbl)	\$20.21	\$13.73	\$15.07	\$25.41	\$25.63
Natural gas liquids					
Edmonton Condensate (CAD\$/bbl)	\$100.34	\$128.77	\$95.61	\$105.13	\$111.41
CAD\$/USD\$	\$0.7421	\$0.7866	\$0.7446	\$0.7396	\$0.7365
Selected statement of financial position results (\$'000s) except share amounts			At Jun. 30, 2023	At Mar. 31, 2023	At Dec. 31, 2022
Total assets			1,700,893	1,766,639	1,835,732
Working capital			43,898	52,940	64,948

Adjusted working capital ⁽¹⁾	42,159	49,822	58,713
Net debt (cash) ⁽¹⁾	352,393	376,487	405,871
Common shares outstanding ⁽³⁾	144,522	144,364	144,211

- (1) Refer to
 - (2) "Non-GAAP and Other Financial Measures".
 - (3) Calculated using the weighted average number of basic or diluted common shares outstanding during the respective period.
 - (4) See "Forward-Looking Statements".
 - (5) See "Supplemental Information Regarding Product Types".
 - (6) See "Non-GAAP and Other Financial Measures".
 - (7) See "Forward-Looking Statements".
- The Company's weighted average number of basic and diluted common shares outstanding during the periods ended June 30, 2023, and June 30, 2022, was 1.1 billion and 1.0 billion, respectively. The weighted average number of basic and diluted common shares outstanding during the periods ended June 30, 2023, and June 30, 2022, was 1.1 billion and 1.0 billion, respectively. The weighted average number of basic and diluted common shares outstanding during the periods ended June 30, 2023, and June 30, 2022, was 1.1 billion and 1.0 billion, respectively.

NOTE REFERENCES

This news release refers to financial reporting periods in abbreviated form as follows: "Q2 2023" refers to the three months ended June 30, 2023; "Q1 2023" refers to the three months ended March 31, 2023 "YE 2022" refers to the year ended December 31, 2022; "Q2 2022" refers to the three months ended June 30, 2022 and "YTD 2023" refers to the six months ended June 30, 2023.

1. See "Non-GAAP and Other Financial Measures".
2. Calculated using the weighted average number of basic or diluted common shares outstanding during the respective period.
3. See "Forward-Looking Statements".
4. See "Supplemental Information Regarding Product Types".

5. Topaz's \$1.0 billion syndicated credit facility includes a \$300 million accordion feature which may be advanced by subject to agent consent (the "Syndicated Credit Facility"). At July 31, 2023 Topaz had \$418.0 million drawn against the Syndicated Credit Facility.
6. May include non-producing injection wells or reactivations not previously producing subsequent to Topaz's ownership.
7. Calculated based on Topaz's closing share price on the TSX July 28, 2023 of \$21.45.
8. Topaz's dividends remain subject to board of director approval.
9. Calculated as Q2 2023 processing revenue and other income of \$17.0 million net of \$3.0 million of operating expenses (million), expressed as a percentage of Q2 2023 processing revenue and other income (82%).
10. Estimated total operator working interest average production across Topaz royalty acreage in Q2 2023 (~0.62 MMboepd) as a percentage of total estimated WCSB average production Jan-June 2023 of 7.76MMboepd (Source: Canada Energy Production Report).
11. YTD 2023 gross wells spud across Topaz royalty acreage (270) as a percentage of the total wells rig released across WCSB YTD 2023 of 1,955 (excluding oil sands/in situ) (Source: Rig Locator, geoSCOUT and Peters & Co. Limited).
12. Management's assumptions underlying the Company's 2023 guidance estimates include:

- i. Topaz's internal estimates regarding development pace and production performance including estimates for capital allocated to waterflood and other long-term value-enhancing projects, resulting in estimated annual average royalty production between 18,300 and 18,800 boe/d;
- ii. Management's estimates for fixed and variable processing fees based on 95% utilization, third party income, and infrastructure utilization and cost estimates based on historic information and adjusted for inflation, resulting in estimated annual processing revenue and other income of \$69.0 million;
- iii. Incorporation of the Tuck-In Acquisition for consideration of \$39.5 million and estimated H2 2023 royalty revenue and processing revenue of approximately \$3.0 million however no incorporation of future potential acquisitions;
- iv. Estimated 2023e expenses and expenditures of \$7-\$8mm of cash G&A; \$8-\$9mm of operating expenses; \$3-\$5mm capital expenditures (excluding acquisitions); 1% marketing fee on certain royalty production; estimated annual average interest rate of 7%;
- v. 2023 estimated total dividends of \$176.3 million based on 144.52 million shares outstanding at July 31, 2023 (\$0.30 per share Q1-Q2 2023 and \$0.31 per share Q3-Q4 2023); and
- vi. Topaz's outstanding financial derivative contracts included in its most recently filed MD&A.

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, guidance and strategic plans; estimated average royalty production for the second half of 2023; estimated processing revenue and other income; anticipated exit 2023 net debt; dividend amounts, dividend increases and the estimated dividend payout ratio; the sustainability of the dividend and the rationale for such sustainability; the maintenance of financial flexibility for strategic growth opportunities; the anticipated capital expenditure and drilling plans; the number of drilling rigs to be active on Topaz's royalty acreage during the third quarter of 2023; the future declaration and payment of dividends and the timing and amount thereof; the annual revenue forecast with respect to the Tuck-In Acquisition; the forecasts described under the heading "Second Quarter 2023 Update" above including under the sub-headings "Dividend" and "2023 Guidance Update"; expected benefits from acquisitions including enhancing Topaz's future growth outlook and the plans to maintain a low payout ratio in order to retain Excess FCF for self-funded M&A growth and further dividend increases; 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 including future commodity prices, capital expenditures, infrastructure ownership capacity utilization and operator development plans 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 "Forward-Looking Statements" therein), 2022 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.sedarplus.ca) 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 average royalty production range for the year ending December 31, 2023, estimated processing revenue and other income, and estimated year-end exit net debt, 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 2023 Update - 2023 Guidance Update" above and are based on the following key assumptions: Topaz's estimated capital expenditures (excluding acquisitions) of \$3 to \$5 million in 2023; the working interest owners' anticipated 2023 capital plans attributable to Topaz's undeveloped royalty lands; estimated average annual royalty production range of 18,300 to 18,800 boe/d in 2023; 2023 average infrastructure ownership capacity utilization of 95%; December 31, 2023 exit net debt of approximately \$350 million, 2023 average commodity prices of: \$2.76/mcf (AECO 5A), US\$74.58/bbl (NYMEX WTI), US\$17.42/bbl (WCS oil differential), US\$2.92/bbl (MSW oil differential) and US\$/CAD\$ foreign exchange 0.75.

To the extent such estimates constitute financial outlooks, they were approved by management and the board of directors of Topaz on July 31, 2023 and are included to provide readers with an understanding of the estimated royalty production, processing revenue and other income, net debt and the other metrics described above for the year ending December 31, 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 Financial Measures

The non-GAAP financial measure used herein does not have a standardized meaning prescribed by GAAP. Accordingly, the Company's use of this term may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that the non-GAAP financial measure 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 Measure

This news release makes reference to the term "acquisitions, excluding decommissioning obligations", which is considered a non-GAAP financial measure under NI 52-112; defined as a financial measure disclosed by an issuer that depicts the historical or expected future financial performance, financial position, or cash flow of an entity, and is 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 Company's interim consolidated financial statements as at and for the three and six months ended June 30, 2023 include EBITDA, adjusted working capital, net debt (cash), free cash flow (FCF) and Excess FCF.

Supplementary financial measures

This news release makes reference to the terms "EBITDA per basic or diluted share", "cash flow per basic or diluted share", "FCF per basic or diluted share" 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 Syndicated Credit Facility, presented in note 8 to the Company's interim consolidated financial statements as at and for the three and six months ended June 30, 2023: (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 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 capital management 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	
(\$000s)	Jun. 30, 2023	Jun. 30, 2022	Jun. 30, 2023	Jun. 30, 2022
Cash from operating activities	73,304	80,708	158,963	148,692
Exclude net change in non-cash working capital	5,826	(14,680)	19,720	(20,870)
Cash flow	67,478	95,388	139,243	169,562
Less: Capital expenditures	1,099	1,267	1,574	1,657
FCF	66,379	94,121	137,669	167,905
Less: dividends paid	43,355	37,392	86,664	73,680
Excess FCF	23,024	56,729	51,005	94,225
Cash flow per basic share ⁽¹⁾	\$0.47	\$0.67	\$0.96	\$1.20
Cash flow per diluted share ⁽¹⁾	\$0.47	\$0.66	\$0.96	\$1.20
FCF per basic share ⁽¹⁾	\$0.46	\$0.66	\$0.95	\$1.19
FCF per diluted share ⁽¹⁾	\$0.46	\$0.66	\$0.95	\$1.18
FCF	66,379	94,121	137,669	167,905
Total Revenue and other income	74,680	110,983	152,865	192,325
FCF Margin	89 %	85 %	90 %	87 %

⁽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 Jun. 30, 2023	As at Dec. 31, 2022
Working capital	43,898	64,948
Exclude fair value of financial instruments	1,739	6,235
Adjusted working capital	42,159	58,713
Less: bank debt	394,552	464,584
Net Debt	352,393	405,871

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 Company's interim consolidated financial statements as at and for the three and six months ended June 30, 2023, 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	
(\$000s)	Jun. 30, 2023	Jun. 30, 2022	Jun. 30, 2023	Jun. 30, 2022
Net income	9,366	49,473	17,259	60,881
Unrealized (gain) loss on financial instruments (642)		(16,598)	4,350	(2,819)
Share-based compensation	226	138	458	287
Finance expense	7,197	2,272	14,743	4,367
Depletion and depreciation	54,540	49,802	109,834	95,745
Deferred income tax expense	3,778	12,412	6,924	15,148
Less: interest income	(149)	(40)	(305)	(51)
EBITDA	74,316	97,459	153,263	173,558
EBITDA per basic share (\$/share)	\$0.51	\$0.68	\$1.06	\$1.23
EBITDA per diluted share (\$/share)	\$0.51	\$0.68	\$1.06	\$1.22

(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	
	Jun. 30, 2023	Jun. 30, 2022	Jun. 30, 2023	Jun. 30, 2022
Cash flow (\$000s)	67,478	95,388	139,243	169,562
Dividends (\$000s)	43,355	37,392	86,664	73,680
Payout Ratio (%)	64 %	39 %	62 %	43 %

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	
(\$000s)	Jun. 30, 2023	Jun. 30, 2022	Jun. 30, 2023	Jun. 30, 2022
Acquisitions (consolidated statements of cash flows)	447	14,769	483	15,031
Non-Cash acquisitions	?	84,785	?	84,785
Acquisitions (excluding non-cash decommissioning obligations)	447	99,554	483	99,816

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 news release 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.

INFORMATION REGARDING PUBLIC ISSUER COUNTERPARTIES

Certain information contained in this news release relating to the Company's public issuer counterparties which include Tourmaline and others, and the nature of their respective businesses 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.

CREDIT RATINGS

This news release makes reference to Tourmaline's credit rating. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

SUPPLEMENTAL INFORMATION REGARDING PRODUCT TYPES

This news release includes references to actual and 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 Jun. 30, 2023 Mar. 31, 2023 Dec. 31, 2022 Sept. 30, 2022 Jun. 30, 2022

Average daily production

Light and Medium crude oil (bbl/d)	1,717	1,727	1,704	1,516	1,562
Heavy crude oil (bbl/d)	2,582	2,496	2,512	1,288	1,191
Conventional Natural Gas (mcf/d)	41,989	43,316	41,932	41,293	40,817
Shale Gas (mcf/d)	35,575	37,563	35,838	34,304	35,930
Natural Gas Liquids (bbl/d)	1,185	1,179	1,170	1,081	1,133
Total (boe/d)	18,411	18,884	18,349	16,485	16,676

For the six months ended Jun. 30, 2023 Jun. 30, 2022

Average daily production

Light and Medium crude oil (bbl/d)	1,722	1,426
Heavy crude oil (bbl/d)	2,539	1,192
Conventional Natural Gas (mcf/d)	42,649	40,409
Shale Gas (mcf/d)	36,564	35,537
Natural Gas Liquids (bbl/d)	1,182	1,124
Total (boe/d)	18,647	16,401

For the year ended 2023 (Estimate)⁽¹⁾⁽²⁾ 2022 (Actual) 2021 (Actual)

Average daily production

Light and Medium crude oil (bbl/d)	1,523	1,519	565
Heavy crude oil (bbl/d)	2,850	1,549	538
Conventional Natural Gas (mcf/d)	41,277	41,016	43,282
Shale Gas (mcf/d)	36,100	35,302	29,987
Natural Gas Liquids (bbl/d)	1,280	1,125	789
Total (boe/d)	18,550	16,914	14,103

⁽¹⁾ Represents the midpoint of the estimated range of 2023 average annual royalty production.

⁽²⁾ Topaz's estimated royalty production is based on the 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.

GENERAL

See also "Forward-Looking Statements", "Reserves and Other Oil and Gas Information" and "Non-GAAP and Other Financial Measures" in the Company's most recently filed Management's Discussion and Analysis.

SOURCE [Topaz Energy Corp.](#)

Contact

[Topaz Energy Corp.](#), Marty Staples, President and Chief Executive Officer, (587) 747-4830; Cheree Stephenson, VP Finance and CFO, (587) 747-4830

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