



TOPAZ ANNOUNCES STRATEGIC ACQUISITION OF ADDITIONAL PEACE RIVER AND DEEP BASIN ROYALTY ASSETS AND INCREASED 2022 GUIDANCE

July 27, 2022

Calgary, Alberta – Topaz Energy Corp. (TSX:TPZ) (“Topaz” or the “Company”) is pleased to announce that in furtherance of its acquisition growth strategy, it has entered into definitive agreements with Tourmaline Oil Corp. (“Tourmaline”) for the purchase of newly created gross overriding royalty interests on approximately 0.2 million gross acres of developed and undeveloped land in the Peace River and Deep Basin play areas of Alberta, for total cash consideration of \$52.0 million (the “Strategic Acquisition”). The Strategic Acquisition is expected to close in September 2022, subject to satisfaction of customary closing conditions including Tourmaline completing a recently announced corporate acquisition. In light of the acquisition and expanded capital development plans by certain of Topaz’s strategic partners, Topaz has increased its 2022 guidance estimates.

Strategic Acquisition

- Tourmaline is the largest and amongst the most active operators in the Peace River and Deep Basin. Topaz currently owns gross overriding royalty interests on nearly all of Tourmaline’s existing Peace River and Deep Basin acreage; the Strategic Acquisition increases Topaz’s royalty acreage in these areas by 7% with opportunistic, contiguous acreage and provides strategic alignment in the deployment of Tourmaline’s annual capital investment.
- Tourmaline’s assets to be acquired in Peace River provide complementary processing and transportation infrastructure and pooling of prospective lands; enabling increased takeaway capacity and facilitation of longer horizontal lateral length drilling to enhance economic performance.
- The Deep Basin is a core asset within Topaz’s existing portfolio. Topaz currently owns royalty interests in 2.2 million gross acres in the Deep Basin (38% of total acreage), which provide low-risk development and well-established egress infrastructure, including three natural gas processing facilities in which Topaz holds joint ownership with Tourmaline. The Deep Basin acreage to be acquired by Topaz adds a combination of new and increased working interest in existing royalty interests which were acquired by Tourmaline through swaps, acquisitions and crown land sales over the past year.
- Pursuant to the Strategic Acquisition, Topaz will acquire a 3% gross overriding royalty interest on natural gas production and a 2.5% gross overriding royalty interest on crude oil and condensate production, which is expected to provide meaningful expansion of drilling location inventory on the Company’s royalty lands.
- Based on realized commodity prices and average production of 323 boe/d⁽⁶⁾ for the five months ended May 31, 2022, the Strategic Acquisition would have generated \$7.0 million in annualized royalty production revenue to Topaz, had the royalty been in place January 1, 2022. Topaz estimates that the Strategic Acquisition will generate royalty production revenue of \$7.0 to \$9.0 million in 2023^(2,4), and free cash flow⁽¹⁾ growth on a per share basis.
- Tourmaline plans to fund a portion of its recently announced corporate acquisition with six million Topaz shares, which would reduce Tourmaline’s ownership in Topaz to 31.4%. The reduction in Tourmaline-held shares will expand Topaz’s free-trading share float and provide new and existing shareholders with enhanced trading liquidity which is in-line with Topaz’s strategic objectives.

Increased 2022 Guidance Estimates

Topaz has increased its 2022 guidance estimates to incorporate the Strategic Acquisition (effective September 2022) and expanded capital development plans by certain of Topaz’s strategic partners, resulting in estimated 2022 annual average royalty production between 16,650 and 16,850 boe/d. Based on commodity pricing of \$5.00/mcf AECO and US\$90/bbl WTI for the remainder of the year, Topaz’s estimated 2022 EBITDA⁽¹⁾ range has increased to \$345.0 to \$347.0 million. After payment of 2022 estimated dividends of \$154.0 million (45% payout ratio⁽¹⁾), Topaz expects to generate \$174.0 to \$178.0 million of Excess FCF⁽¹⁾, exiting 2022 with net debt⁽¹⁾ estimated to range between \$114.0 and \$118.0 million, before giving effect to incremental acquisitions.

Increased 2022 Guidance Estimates⁽³⁾⁽⁷⁾ 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⁾	16,650 – 16,850
Royalty production natural gas weighting ⁽⁴⁾	~76%
EBITDA ⁽¹⁾	\$345 – \$347
Capital expenditures (excluding acquisitions) ⁽¹⁾	\$3 – \$4
Excess FCF ⁽¹⁾ (after interest & dividends)	\$174 – \$178
Dividends ⁽⁵⁾	\$154
Dividend payout ratio ⁽¹⁾	45%
Year end 2022 net debt (before M&A) ⁽¹⁾	\$114 – \$118
Year end 2022 net debt to cash flow (before M&A) ⁽¹⁾	0.3x

Additional information

Additional information about Topaz is available on SEDAR at www.sedar.com under the Company's profile, and on Topaz's website, www.topazenergy.ca.

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

1. See "Non-GAAP and Other Financial Measures".
2. See "Forward-Looking Statements".
3. See "Supplemental Information Regarding Product Types".
4. Based on commodity pricing of \$5.00/mcf AECO and US\$90 WTI and Tourmaline's expected capital plans.
5. Topaz's dividends remain subject to board of director approval.
6. Comprised of 1,415 mcf/d of conventional natural gas, 12 bbl/d of natural gas liquids and 80 bbl/d of crude oil.
7. Management's assumptions underlying the Company's updated 2022 guidance estimates as disclosed in the Company's July 26, 2022 news release with revisions noted below:
 - i. Estimated average annual royalty production between 16,650 and 16,850 boe/d in 2022.

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; environment, social and governance initiatives; 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 future declaration and payment of dividends and the timing and amount thereof; the forecasts described under the heading "Strategic Acquisition" and "Increased 2022 Guidance Estimates", including expected royalty production revenue of \$7.0 to \$9.0 million in 2023 attributed to the Strategic Acquisition, annual average 2022 royalty production, EBITDA, FCF, Excess FCF, annual dividends, exit net debt, and capital expenditures (excluding acquisitions) for 2022; 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, including the closing of the corporate acquisition announced by Tourmaline on July 27, 2022, and the failure to realize some or all of the anticipated benefits of acquisitions including estimated royalty production, royalty production revenue and FCF⁽¹⁾ per share growth, and the factors discussed in the Company's recently filed Management's Discussion and Analysis (See "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 "Increased 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 16,650 to 16,850 boe/d in 2022; H2 2022 average infrastructure ownership capacity utilization of 95%; December 31, 2022 exit net debt range between \$114.0 and \$118.0 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 27, 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 and Ratios

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 Company's Interim Consolidated Financial Statements as at and for the three and six months ended June 30, 2022 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 Company's Interim Consolidated Financial Statements as at and for the three and six months ended June 30, 2022: (i) consolidated senior debt, (ii) total debt, (iii) EBITDA and (iv) capitalization.

For additional information, refer to "Non-GAAP and Other Financial Measures" in Topaz's news release dated July 26, 2022 and in the most recently filed Management's Discussion and Analysis, both of which may be accessed through the SEDAR website (www.sedar.com) or Topaz's website (www.topazenergy.ca).

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:

	Dec. 31, 2022 (Estimate) ^(1,2)
For the year ended	
Average daily production	
Light and Medium crude oil (bbl/d)	1,433
Heavy crude oil (bbl/d)	1,393
Conventional natural gas (Mcf/d)	39,763
Shale Gas (Mcf/d)	36,698
Natural Gas Liquids (bbl/d)	1,180
Total (boe/d)	16,750
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.

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