# TOPAZ ENERGY CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As at June 30, 2023 and for the three and six months ended June 30, 2023 and 2022

## Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of Topaz Energy Corp. ("**Topaz**" or the "**Company**") for the three and six months ended June 30, 2023, and 2022 should be read in conjunction with the unaudited interim condensed consolidated financial statements as at June 30, 2023, and for the three and six months ended June 30, 2023 and 2022, together with the accompanying notes ("Interim Consolidated Financial Statements"). This MD&A is dated July 31, 2023.

The Interim Consolidated Financial Statements have been prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS") and also referred to in this MD&A as Generally Accepted Accounting Principles ("GAAP") as issued by the International Accounting Standards Board ("IASB").

Certain financial terms and measures contained in this MD&A 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 MD&A 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 in the *"Non-GAAP and Other Financial Measures"* section of this MD&A.

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 or other financial information determined in accordance with GAAP, as an indication of the Company's performance.

The following volumetric measures may be abbreviated throughout this MD&A: barrel ("bbl") per day ("bbl/d"); barrel of oil equivalent ("boe") per day ("boe/d"); and thousand cubic feet ("mcf") per day ("mcf/d"). Barrel of oil equivalent is an industry measurement to summarize the amount of energy equivalent found in a barrel of crude oil. Further information including energy conversions, forward-looking statements and certain other abbreviations, can be found in the *"Advisories and Forward-Looking Statements"* section of this MD&A.

The Common Shares of the Company trade on the Toronto Stock Exchange under the symbol "TPZ".

## Highlights

Highlights of Topaz's financial results for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022 ("Q2 2023", "YTD 2023", "Q2 2022" and "YTD 2022", respectively) are presented below:

**Royalty activity update**

- Topaz's Q2 2023 average royalty production[4] of 18,411 boe/d increased 10% from 16,676 boe/d during Q2 2022, and was 3% lower than Q1 2023 due to production curtailments realized during the second quarter attributed to planned maintenance and unplanned shut-ins due to forest fires in Alberta and British Columbia. Total liquids weighting in Q2 2023 increased to 30% of average royalty production[4], as compared to 23% in Q2 2022 and 29% in Q1 2023, and Topaz achieved record total liquids royalty production of 5,484 bbl/d in Q2 2023.

- YTD 2023 average royalty production[4] of 18,647 boe/d increased 14% from 16,401 boe/d during YTD 2022. Total liquids weighting of YTD 2023 average royalty production was 29% which was 28% higher than the YTD 2022 total liquids weighting of 23%.

- Royalty production revenue of $57.7 million during Q2 2023 was 39% lower than the $94.8 million generated during Q2 2022, due to lower benchmark commodity pricing (66% decrease in natural gas (AECO 5A) and a 32% decrease in crude oil (WTI) pricing in Q2 2023 relative to Q2 2022) which was offset by 10% royalty production growth year over year.

- Royalty production revenue of $118.6 million during YTD 2023 was 26% lower than the $160.5 million generated during YTD 2022, due to lower benchmark commodity pricing (53% decrease in natural gas (AECO 5A) and a 26% decrease in crude oil (WTI) pricing in YTD 2023 relative to YTD 2022), which was offset by 14% royalty production growth from the prior comparative period.

- During Q2 2023, 106 gross wells[5] were spud on Topaz's royalty acreage and 96 gross wells were brought on production[3] which represents a 4% increase from Q2 2022 when 102 gross wells were spud.

- During YTD 2023, 270 gross wells were spud on Topaz's royalty acreage and 279 gross wells were brought on production which represents a 13% increase from YTD 2022 when 239 gross wells were spud.

**Infrastructure activity update**

- During Q2 2023, Topaz generated $13.4 million of processing revenue attributed to its non-operated ownership in processing facilities, 4% higher than Q2 2022 ($12.9 million). During Q2 2023 and Q2 2022, average daily utilization of Topaz's net natural gas processing capacity was 98% and 100%, respectively (81% of which was contracted under fixed take-or-pay during both Q2 2023 and Q2 2022).

- During YTD 2023, Topaz generated $27.0 million of processing revenue attributed to its non-operated ownership in processing facilities, 4% higher than YTD 2022 ($26.0 million). During YTD 2023 and YTD 2022, average daily utilization of Topaz's net natural gas processing capacity was 99% and 100%, respectively (80% of which was contracted under fixed take-or-pay during both periods).

- During Q2 2023 and YTD 2023, Topaz earned $3.6 million and $7.3 million of other income, respectively, which is attributable to its contracted interest in third-party infrastructure income compared to $3.3 million and $5.8 million during Q2 2022 and YTD 2022, respectively.

**Financial performance**

- During Q2 2023, Topaz generated cash flow and FCF[2] of $67.5 million and $66.4 million, respectively, which was 29% lower than Q2 2022 ($95.4 million and $94.1 million, respectively), attributed to lower commodity pricing however offset by royalty production growth and higher processing revenue and other income. Topaz's FCF Margin[2] of 89% during Q2 2023 was 5% higher than Q2 2022 (85% FCF Margin[2]). On a per share basis[6], Q2 2023 FCF[2] of $0.46 decreased 30% from Q2 2022 ($0.66 per share).

- During YTD 2023, Topaz generated cash flow and FCF[2] of $139.2 million and $137.7 million, respectively, which was 18% lower than YTD 2022 ($169.6 million and $167.9 million, respectively) primarily due to lower commodity pricing however offset by royalty production growth and higher processing revenue and other income. Topaz's FCF Margin[2] of 90% during YTD 2023 was 3% higher than YTD 2022 (87% FCF Margin[2]). On a per share basis[6], YTD 2023 FCF[2] of $0.95 decreased 20% from YTD 2022 ($1.19 per share).

### Dividend

- In Q2 2023, Topaz paid dividends of $43.4 million ($0.30 per share), representing a payout ratio[(2)] of 64%, compared to $37.4 million ($0.26 per share) in Q2 2022, representing a payout ratio[(2)] of 39%. YTD 2023 dividends paid were $86.7 million ($0.60 per share), representing a payout ratio[(2)] of 62%, compared to $73.7 million ($0.52 per share), representing a payout ratio of 43% in YTD 2022.

### Capital resources

- At June 30, 2023, Topaz had 144.5 million common shares outstanding, of which Tourmaline owned 31.2%.

- Topaz ended Q2 2023 with net debt[(2)] of $352.4 million, which was $53.5 million or 13% lower than $405.9 million net debt at December 31, 2022.

(1) Comprised of royalty production revenue, processing revenue and other income.
(2) Refer to "*Non-GAAP and Other Financial Measures*".
(3) Includes wells drilled during the current and previous periods on Topaz royalty acreage.
(4) Refer to "*Supplemental Information Regarding Product Types*".
(5) May include non-producing injection wells.
(6) As noted, calculated using the basic or diluted weighted average number of shares outstanding during the period.

## Selected Financial Information

| For the periods ended<br>($000s) except per share | YTD 2023 | YTD 2022 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 |
|---|---|---|---|---|---|---|---|
| Royalty production revenue | 118,591 | 160,520 | 57,667 | 60,924 | 77,809 | 65,482 | 94,776 |
| Processing revenue | 26,968 | 25,985 | 13,397 | 13,571 | 13,841 | 13,098 | 12,907 |
| Other income[4] | 7,306 | 5,820 | 3,616 | 3,690 | 3,993 | 3,099 | 3,300 |
| **Total** | **152,865** | **192,325** | **74,680** | **78,185** | **95,643** | **81,679** | **110,983** |
| Cash expenses: | | | | | | | |
| Operating | (4,962) | (3,002) | (3,022) | (1,940) | (1,785) | (1,587) | (1,823) |
| Marketing | (684) | (1,128) | (315) | (369) | (486) | (420) | (669) |
| General and administrative | (3,392) | (2,913) | (1,823) | (1,569) | (1,828) | (1,699) | (1,334) |
| Realized gain (loss) on financial instruments | 9,741 | (11,673) | 4,945 | 4,796 | 1,614 | 2,624 | (9,658) |
| Interest expense | (14,325) | (4,047) | (6,987) | (7,338) | (6,885) | (2,669) | (2,111) |
| **Cash flow** | **139,243** | **169,562** | **67,478** | **71,765** | **86,273** | **77,928** | **95,388** |
| Per basic share[1][2] | $0.96 | $1.20 | $0.47 | $0.50 | $0.60 | $0.54 | $0.67 |
| Per diluted share[1][2] | $0.96 | $1.20 | $0.47 | $0.50 | $0.60 | $0.54 | $0.66 |
| Cash from operating activities | 158,963 | 148,692 | 73,304 | 85,659 | 69,214 | 99,972 | 80,708 |
| Per basic share[1][2] | $1.10 | $1.05 | $0.51 | $0.59 | $0.48 | $0.69 | $0.57 |
| Per diluted share[1][2] | $1.10 | $1.05 | $0.51 | $0.59 | $0.48 | $0.69 | $0.56 |
| Net income | 17,259 | 60,881 | 9,366 | 7,893 | 19,094 | 19,380 | 49,473 |
| Per basic share[2] | $0.12 | $0.43 | $0.06 | $0.05 | $0.13 | $0.13 | $0.35 |
| Per diluted share[2] | $0.12 | $0.43 | $0.06 | $0.05 | $0.13 | $0.13 | $0.34 |
| EBITDA[7] | 153,263 | 173,558 | 74,316 | 78,947 | 93,006 | 80,463 | 97,459 |
| Per basic share[1][2] | $1.06 | $1.23 | $0.51 | $0.55 | $0.65 | $0.56 | $0.68 |
| Per diluted share[1][2] | $1.06 | $1.22 | $0.51 | $0.54 | $0.64 | $0.56 | $0.68 |
| FCF[1] | 137,669 | 167,905 | 66,379 | 71,290 | 85,018 | 77,002 | 94,121 |
| Per basic share[1][2] | $0.95 | $1.19 | $0.46 | $0.49 | $0.59 | $0.53 | $0.66 |
| Per diluted share[1][2] | $0.95 | $1.18 | $0.46 | $0.49 | $0.59 | $0.53 | $0.66 |
| FCF Margin[1] | 90% | 87% | 89% | 91% | 89% | 94% | 85% |
| Dividends paid | 86,664 | 73,680 | 43,355 | 43,309 | 43,244 | 40,364 | 37,392 |
| Per share[1][6] | $0.60 | $0.52 | $0.30 | $0.30 | $0.30 | $0.28 | $0.26 |
| Payout ratio[1] | 62% | 43% | 64% | 60% | 50% | 52% | 39% |
| Excess FCF[1] | 51,005 | 94,225 | 23,024 | 27,981 | 41,774 | 36,638 | 56,729 |
| Capital expenditures | 1,574 | 1,657 | 1,099 | 475 | 1,255 | 926 | 1,267 |
| Acquisitions, excl. decommissioning obligations[1] | 483 | 99,816 | 447 | 36 | 7,538 | 328,285 | 99,554 |
| Weighted average shares – basic[3] | 144,387 | 140,986 | 144,438 | 144,336 | 144,153 | 144,008 | 142,494 |
| Weighted average shares – diluted[3] | 144,931 | 141,883 | 144,990 | 144,943 | 144,976 | 144,728 | 143,471 |
| **Average Royalty Production[5]** | | | | | | | |
| Natural gas (mcf/d) | 79,213 | 75,946 | 77,564 | 80,880 | 77,770 | 75,597 | 76,747 |
| Light and medium crude oil (bbl/d) | 1,722 | 1,426 | 1,717 | 1,727 | 1,704 | 1,516 | 1,562 |
| Heavy crude oil (bbl/d) | 2,539 | 1,192 | 2,582 | 2,496 | 2,512 | 1,288 | 1,191 |
| Natural gas liquids (bbl/d) | 1,182 | 1,124 | 1,185 | 1,179 | 1,170 | 1,081 | 1,133 |
| **Total (boe/d)** | **18,647** | **16,401** | **18,411** | **18,884** | **18,349** | **16,485** | **16,676** |
| **Realized Commodity Prices[5]** | | | | | | | |
| Natural gas ($/mcf) | $2.81 | $6.02 | $2.38 | $3.23 | $4.77 | $4.08 | $7.20 |
| Light and medium crude oil ($/bbl) | $89.06 | $119.43 | $90.61 | $87.50 | $100.67 | $112.31 | $131.98 |
| Heavy crude oil ($/bbl) | $67.66 | $107.64 | $73.87 | $61.15 | $72.33 | $91.69 | $119.09 |
| Natural gas liquids ($/bbl) | $90.62 | $116.61 | $86.73 | $94.58 | $104.18 | $106.40 | $124.60 |
| **Total ($/boe)** | **$35.14** | **$54.07** | **$34.42** | **$35.85** | **$46.09** | **$43.17** | **$62.45** |
| **Benchmark Pricing** | | | | | | | |
| Natural Gas | | | | | | | |
| AECO 5A *(CAD$/mcf)* | $2.84 | $5.99 | $2.45 | $3.23 | $5.11 | $4.16 | $7.24 |
| AECO 7A *(CAD$/mcf)* | $3.34 | $5.43 | $2.34 | $4.35 | $5.58 | $5.82 | $6.27 |
| Westcoast station 2 *(CAD$/mcf)* | $2.39 | $5.76 | $1.89 | $2.90 | $3.22 | $3.10 | $6.81 |
| Crude oil | | | | | | | |
| NYMEX WTI *(USD$/bbl)* | $74.92 | $101.35 | $73.75 | $76.11 | $82.64 | $91.56 | $108.41 |
| Edmonton Par *(CAD$/bbl)* | $97.52 | $126.95 | $95.52 | $99.55 | $110.32 | $116.96 | $138.03 |
| WCS differential *(USD$/bbl)* | $20.21 | $13.73 | $15.07 | $25.41 | $25.63 | $19.85 | $12.91 |
| Natural gas liquids | | | | | | | |
| Edmonton Condensate *(CAD$/bbl)* | $100.34 | $128.77 | $95.61 | $105.13 | $111.41 | $112.49 | $137.38 |
| CAD$/USD$ | $0.7421 | $0.7866 | $0.7446 | $0.7396 | $0.7365 | $0.7660 | $0.7834 |

| **Selected statement of financial position results**<br>($000s) except share amounts | **At Jun. 30, 2023** | **At Mar. 31, 2023** | **At Dec. 31, 2022** | **At Sept. 30, 2022** | **At Jun. 30, 2022** |
|---|---|---|---|---|---|
| Total assets | 1,700,893 | 1,766,639 | 1,835,732 | 1,875,465 | 1,641,508 |
| Working capital | 43,898 | 52,940 | 64,948 | 44,507 | 75,623 |
| Adjusted working capital[1] | 42,159 | 49,822 | 58,713 | 42,019 | 72,258 |
| Net debt (cash)[1] | 352,393 | 376,487 | 405,871 | 439,954 | 151,316 |
| Common shares outstanding[3] | 144,522 | 144,364 | 144,211 | 144,147 | 143,824 |

(1) Refer to "*Non-GAAP and Other Financial Measures*".
(2) Calculated using basic or diluted weighted average shares outstanding during the period.
(3) Shown in thousand shares outstanding.
(4) Other income of $3.6 million and $7.3 million for Q2 2023 and YTD 2023, respectively, includes interest income of $0.1 million and $0.3 million, respectively (Q1 2023 - $0.2 million, Q4 2022 - $0.2 million, Q3 2022 - $0.1 million, Q2 2022 - $0.04 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 Company's Syndicated Credit Facility.

## Business Overview
### *Strategy*

Topaz is a unique royalty and infrastructure energy company focused on generating free cash flow[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 industry relationships to execute complementary acquisitions from other high-quality energy companies, while maintaining its commitment to environmental, social and governance (″ESG″) 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.

Topaz’s 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.

The 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.

Topaz's SEDAR+ filings are available at www.sedarplus.ca.

The Company's dynamic and scalable business model combines the best attributes from each of the royalty and infrastructure energy segments and is designed to provide investors with sustainable long-term shareholder returns by:

(i) focussing on disciplined capital allocation to capture best-in class assets having high-margin income streams with strong partners which includes: royalty production revenue generated from gross overriding royalty interests and fee mineral title royalty interests, which are underpinned by operator capital development commitments in order to provide a transparent growth outlook and do not require Topaz to incur operating or capital costs or require day-to-day operational decisions, development execution or abandonments; processing revenue generated through its non-operated ownership interests in infrastructure assets whereby the Company has long-term fixed take-or-pay arrangements with high-quality counterparties and is only responsible for certain operating, capital and future abandonment costs; and other income which is generated by way of a contracted interest in third-party revenue generated through fee-for-service processing contracts with no underlying facility ownership and therefore no associated operating or capital costs;

(ii) integrating ESG considerations into the Company's investment strategy to enhance corporate value;

(iii) having modest corporate overhead costs;

(iv) having a long-term horizon before income tax is payable;

(v) having a transparent outlook to the Company's opportunistic growth projects; and

(vi) providing our strategic partners with innovative non-dilutive financing alternatives to enhance their sustainability.

Topaz's income streams are generated primarily from Canadian natural gas which has among the lowest emissions in the world, and Topaz's capital facilitates growth of clean Canadian natural gas. Topaz also invests in environmentally responsible oil assets. Topaz's investment criteria is focused on high-quality, long-life assets, strong risk-adjusted economic returns and investments that facilitate enhanced environmental performance.

Topaz intends to use the majority of its free cash flow (FCF)[1] to pay dividends to shareholders and the Company has a long-term payout ratio target of 60-90%. The Board has established a dividend policy pursuant to which the Company intends to pay an annual dividend in the amount of $1.24 per Common Share on a quarterly ($0.31 per share) basis.

(1) Refer to “*Non-GAAP and Other Financial Measures*”.

***Asset Overview***

The Company's high-quality assets and associated income streams are comprised of:

(i) gross overriding and fee mineral title royalty interests (“the Royalty Assets”) on approximately 6.0 million gross acres (over 60% of which are undeveloped) from which the Company receives royalty production revenue based on the associated natural gas, crude oil and natural gas liquids gross production revenue (the "Royalty Production Revenue"); and

(ii) non-operated ownership interests in five natural gas processing plants with cumulative natural gas processing capacity of approximately 215 mmcf/d and certain water management infrastructure from which the Company is entitled to receive processing revenue from processing services provided to customers on a fee-for-service basis, the majority of which is contracted under long-term fixed fee take-or-pay agreements (the "Processing Revenue"); and a contracted interest in a portion of third-party revenue generated from facilities owned and operated by Tourmaline through fee-for-service agreements with third parties (the "Other Income") (collectively, the "Infrastructure Assets").

Topaz remains committed to its business plan which is focused on generating sustainable long-term shareholder returns.

## Additional Information

Additional information about Topaz, including the Annual Consolidated Financial Statements for the years ended December 31, 2022 and 2021 and the Company’s 2022 Annual Information Form are available electronically under the Company's profile on SEDAR+, www.sedarplus.ca and on Topaz's website, www.topazenergy.ca.

## Climate Change

Emissions, carbon, and other regulations impacting climate and climate-related matters are constantly evolving. With respect to ESG and climate reporting, the International Sustainability Standards Board (‘ISSB’) has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable, and reliable. On June 26, 2023 the ISSB released two standards: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information;* and IFRS S2 *Climate-related Disclosures.* The Canadian Sustainability Standards Board (‘CSSB’) has been formed to support the adoption of international sustainability standards in Canada, which will include decisions about adoption and effective dates of IFRS S1 and IFRS S2 in Canada. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 *Disclosure of Climate-related Matters*.

The long-term effects of the proposed standards to the Company are uncertain, however, it is possible that these new regulations will affect the Company’s business, results of operations, access to capital and financial condition.

A key component of Topaz's business strategy is to maintain its commitment to ESG best practices by integrating ESG performance considerations in its business decisions, investments, and evaluation of its strategic partners.

On October 3, 2022, Topaz published its 2021 Sustainability Report which outlines the Company’s sustainable investment strategy that is focused on developing partnerships with responsible operators and leveraging technical expertise to invest in top quartile, long-life, prolific plays supported by inflation-protected, commodity-resilient revenue streams. The report provides Topaz’s comprehensive performance metrics, including zero scope 1 and 2 emissions, that were developed in alignment with the GHG Protocol, 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 disclosures of the Task Force on Climate-Related Financial Disclosures (TCFD) and third-party verification of certain performance data. The report is available on the Company's website at www.topazenergy.ca.

Topaz anticipates publishing its 2022 Sustainability Report during the second half of 2023.

## Financial Results of Operations

### Cash from Operating Activities, Cash Flow, FCF, Excess FCF and Net Income

During Q2 2023 and Q2 2022, Topaz generated $73.3 million and $80.7 million, respectively, of cash from operating activities. Cash flow during the same periods was $67.5 million and $95.4 million, respectively. The Company generated FCF(1) of $66.4 million and $94.1 million, realizing a FCF margin(1) of 89% and 85% during Q2 2023 and Q2 2022, respectively. After dividend payments, Topaz generated Excess FCF(1) of $23.0 million during Q2 2023 which was used to repay debt and $56.7 million during Q2 2022 which was used to repay debt and fund acquisitions. The Company generated net income of $9.4 million and $49.5 million in Q2 2023 and Q2 2022, respectively.

During YTD 2023 and YTD 2022, Topaz generated $159.0 million and $148.7 million, respectively, of cash from operating activities. Cash flow during the same periods was $139.2 million and $169.6 million, respectively. The Company generated FCF(1) of $137.7 million and $167.9 million, realizing a FCF margin(1) of 90% and 87% during YTD 2023 and YTD 2022, respectively. After dividend payments, Topaz generated Excess FCF(1) of $51.0 million during YTD 2023 which was used to repay debt and $94.2 million during YTD 2022 which was used to repay debt and fund acquisitions. The Company generated net income of $17.3 million and $60.9 million in YTD 2023 and YTD 2022, respectively.

Overall, cash flow, FCF(1), Excess FCF(1) and net income in Q2 2023 and YTD 2023 decreased relative to Q2 2022 and YTD 2022, which is attributable to lower benchmark commodity pricing, despite royalty production growth. Relative to Q2 2022, natural gas pricing (AECO 5A) decreased by 66% and crude oil pricing (WTI) decreased 32%, compared to Q2 2023. Commodity pricing for natural gas (AECO 5A) and crude oil (WTI) during YTD 2023 decreased 53% and 26%, respectively, compared to YTD 2022. In addition, the Company recorded higher interest expense during YTD 2023 which is attributed to acquisitions completed late in 2022 which were funded with debt and a higher underlying market interest rate.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ($000s) except per share amounts | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Cash from operating activities | 73,304 | 80,708 | 158,963 | 148,692 |
| Per basic share(1)(2) | $0.51 | $0.57 | $1.10 | $1.05 |
| Per diluted share(1)(2) | $0.51 | $0.56 | $1.10 | $1.05 |
| Cash flow | 67,478 | 95,388 | 139,243 | 169,562 |
| Per basic share(1)(2) | $0.47 | $0.67 | $0.96 | $1.20 |
| Per diluted share(1)(2) | $0.47 | $0.66 | $0.96 | $1.20 |
| FCF(1) | 66,379 | 94,121 | 137,669 | 167,905 |
| Per basic share(1)(2) | $0.46 | $0.66 | $0.95 | $1.19 |
| Per diluted share(1)(2) | $0.46 | $0.66 | $0.95 | $1.18 |
| FCF margin(1) | 89% | 85% | 90% | 87% |
| Excess FCF(1) | 23,024 | 56,729 | 51,005 | 94,225 |
| Net income | 9,366 | 49,473 | 17,259 | 60,881 |
| Per basic share(2) | $0.06 | $0.35 | $0.12 | $0.43 |
| Per diluted share(2) | $0.06 | $0.34 | $0.12 | $0.43 |

(1) Refer to *"Non-GAAP and Other Financial Measures"*.
(2) As noted, calculated using the basic or diluted weighted average number of shares outstanding during the respective periods.

## Royalty

***Royalty production revenue***

The Company's royalty production revenue is determined pursuant to the terms of its royalty agreements. The commodity prices for natural gas, crude oil, heavy oil and natural gas liquids are determined from market index prices in the month of production and the majority of Topaz's royalty contracts do not permit deductions. The royalty production volumes are currently marketed with the respective royalty payors' production volume and revenue is generally received two months after the natural gas, crude oil, heavy oil and natural gas liquids volumes are produced. The Company can elect to take its share of royalty production volumes in kind, if desired.

Royalty production revenue during Q2 2023 and YTD 2023 was $57.7 million and $118.6 million, respectively, compared to $94.8 million and $160.5 million during Q2 2022 and YTD 2022, respectively. The decreases in 2023 relative to 2022 are attributed to lower commodity pricing, offset by royalty production growth.

***Royalty production***

Topaz's average royalty production(1) during Q2 2023 was 18,411 boe/d (70% natural gas weighted) compared to 16,676 boe/d (77% natural gas weighted) during Q2 2022. Average royalty production(1) during YTD 2023 was 18,647 boe/d (71% natural gas weighted) compared to 16,401 boe/d (77% natural gas weighted) during YTD 2022. Topaz generates royalty revenue from production on developed royalty lands and also expects to generate royalty revenue through future development of its undeveloped acreage.

The royalty production volume increases from 2022 to 2023 are attributed to royalty acquisitions and operator-funded development of Topaz's undeveloped royalty acreage. Royalty production volumes during Q2 2023 were negatively affected by production curtailments realized during the second quarter attributed to planned maintenance and unplanned shut-ins due to forest fires in Alberta and British Columbia.

***Royalty acreage activity***

During Q2 2023, 106 gross wells[3] were spud on Topaz's royalty acreage and 96 gross wells were brought on production[2] (38 gross wells drilled during Q2 2023 and 58 gross wells drilled during prior periods) which represents a 4% increase in capital activity relative to Q2 2022, when 102 gross wells were spud on Topaz's royalty acreage.

During YTD 2023, 270 gross wells[3] were spud on Topaz's royalty acreage and 279 gross wells were brought on production[2] (156 gross wells drilled during YTD 2023 and 123 gross wells drilled during prior periods) which represents a 13% increase in capital activity relative to YTD 2022, when 239 gross wells were spud on Topaz's royalty acreage.

Topaz expects the additional wells drilled but not completed by June 30, 2023, will be brought on production during subsequent periods.

(1) Refer to "*Supplemental Information Regarding Product Types*".
(2) Includes wells drilled during the current and previous periods on Topaz royalty acreage.
(3) May include injection wells.

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| **Royalty production revenue[1]** | | | | |
| Natural gas | 16,801 | 50,263 | 40,346 | 82,714 |
| Light and medium crude oil | 14,160 | 18,755 | 27,763 | 30,832 |
| Heavy crude oil | 17,358 | 12,901 | 31,098 | 23,228 |
| Natural gas liquids | 9,348 | 12,857 | 19,384 | 23,746 |
| **Total ($000s)** | **57,667** | **94,776** | **118,591** | **160,520** |
| **Average royalty production[1]** | | | | |
| Natural gas (mcf/d) | 77,564 | 76,747 | 79,213 | 75,946 |
| Light and medium crude oil (bbl/d) | 1,717 | 1,562 | 1,722 | 1,426 |
| Heavy crude oil (bbl/d) | 2,582 | 1,191 | 2,539 | 1,192 |
| Natural gas liquids (bbl/d) | 1,185 | 1,133 | 1,182 | 1,124 |
| **Total (boe/d)** | **18,411** | **16,676** | **18,647** | **16,401** |
| **Realized royalty production prices[1]** | | | | |
| Natural gas ($/mcf) | $2.38 | $7.20 | $2.81 | $6.02 |
| Light and medium crude oil (C$/bbl) | $90.61 | $131.98 | $89.06 | $119.43 |
| Heavy crude oil ($/bbl) | $73.87 | $119.09 | $67.66 | $107.64 |
| Natural gas liquids (C$/bbl) | $86.73 | $124.60 | $90.62 | $116.61 |
| **Total ($/boe)** | **$34.42** | **$62.45** | **$35.14** | **$54.07** |
| **Benchmark Pricing** | | | | |
| Natural gas | | | | |
| AECO 5A (*CAD$/mcf*) | $2.45 | $7.24 | $2.84 | $5.99 |
| AECO 7A (*CAD$/mcf*) | $2.34 | $6.27 | $3.34 | $5.43 |
| Westcoast station 2 (*CAD$/mcf*) | $1.89 | $6.81 | $2.39 | $5.76 |
| Crude oil | | | | |
| NYMEX WTI *(USD$/bbl)* | $73.75 | $108.41 | $74.92 | $101.35 |
| Edmonton Par *(CAD$/bbl)* | $95.52 | $138.03 | $97.52 | $126.95 |
| WCS differential *(USD$/bbl)* | $15.07 | $12.91 | $20.21 | $13.73 |
| Natural gas liquids | | | | |
| Edmonton Condensate *(CAD$/bbl)* | $95.61 | $137.38 | $100.34 | $128.77 |
| CAD$/USD$ | $0.74 | $0.78 | $0.74 | $0.79 |
| **Royalty Acreage Activity[2]** | | | | |
| Gross wells spud during the period | 106 | 102 | 270 | 239 |
| Gross wells spud and brought on production[3] | 38 | 54 | 156 | 136 |
| Total gross wells brought on production during the period[4] | 96 | 112 | 279 | 252 |

(1) Refer to "*Supplemental Information Regarding Product Types*".
(2) Refers to the number of wells spud or brought on production, as indicated, by the working interest owners (operators). Topaz does not directly conduct upstream petroleum and natural gas exploration and development operations.
(3) Refers to wells brought on production which were spud within the respective period; does not take into consideration wells spud during previous periods.
(4) Includes wells drilled during the current and previous periods on Topaz royalty acreage.

## Infrastructure

### *Processing revenue*

The Company's processing revenue is generated through its non-operated ownership in five natural gas processing plants and water management facilities. The facilities provide processing services to customers on a fee-for-service basis, the majority of which are subject to long-term, fixed fee take-or-pay agreements.

During Q2 2023 and Q2 2022, Topaz generated $13.4 million and $12.9 million, respectively, of processing revenue. Average daily utilization during Q2 2023 and Q2 2022 of Topaz's net natural gas processing capacity was 98% and 100%, respectively, which is attributed to the significant utilization of Topaz's net processing capacity (81% of which was contracted under fixed take-or-pay for both Q2 2023 and Q2 2022). Topaz experienced minor interruptions to natural gas processing capacity during Q2 2023 as a result of the Alberta and British Columbia wildfires.

During YTD 2023 and YTD 2022, Topaz generated $27.0 million and $26.0 million, respectively, of processing revenue. Average daily utilization during YTD 2023 and YTD 2022 of Topaz's net natural gas processing capacity was 99% and 100%, respectively, which is attributed to the significant utilization of Topaz's net processing capacity (80% of which is contracted under fixed take-or-pay for both YTD 2023 and YTD 2022, respectively).

The increased processing revenues are attributed to certain processing fee increases and infrastructure acquisitions completed during the second half of 2022, offset by temporary shut-ins required during Q2 2023 attributed to wildfire activity.

### *Other income*

The Company generates income by way of a contracted interest in third-party revenue generated through fee-for-service processing contracts with no underlying facility ownership, including but not limited to, processing, compression and water handling revenue, generated at multiple facilities owned and operated by Tourmaline. These facilities include natural gas processing plants, crude oil batteries, pipelines, water disposal facilities, compressor stations and other miscellaneous facilities associated with the handling of crude oil, natural gas and natural gas liquids. The facilities are located across all three of Tourmaline's core operating areas and Topaz does not have an ownership interest in the underlying assets.

During Q2 2023 and Q2 2022, Topaz generated other income of $3.6 million and $3.3 million, respectively. During YTD 2023 and YTD 2022, Topaz generated other income of $7.3 million and 5.8 million, respectively. Other income increased during Q2 2023 and YTD 2023, relative to Q2 2022 and YTD 2022, due to increased operator activity which generated higher third-party income at Tourmaline-owned facilities.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ($000s) | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Processing revenue | 13,397 | 12,907 | 26,968 | 25,985 |
| Other income[2] | 3,616 | 3,300 | 7,306 | 5,820 |
| **Total** | **17,013** | **16,207** | **34,274** | **31,805** |
| **Infrastructure utilization activity** | | | | |
| Natural gas processing facilities[1]: | | | | |
| Ownership capacity under fixed take-or-pay contract | 165,000 | 165,000 | 165,000 | 165,000 |
| Variable ownership capacity | 44,417 | 44,712 | 46,340 | 46,308 |
| Total ownership capacity | 209,417 | 209,712 | 211,340 | 211,308 |
| Total throughput volume | 204,539 | 209,712 | 208,213 | 211,308 |
| ***Total utilization (%)*** | **98%** | **100%** | **99%** | **100%** |

(1) Weighted average daily rate (Topaz net ownership) for the periods presented, shown in Mcf/d.
(2) Other income of $3.6 million for Q2 2023 includes interest income of $0.1 million (Q2 2022 - $0.04 million). Other income of $7.3 million for YTD 2023 includes interest income of $0.3 million (YTD 2022 - $0.05 million).

## Operating Expenses

Topaz incurs operating expenses attributed to certain jointly owned, non-operated processing facilities. During Q2 2023 and Q2 2022, Topaz incurred $3.0 million and $1.8 million, respectively, of operating expenses. During YTD 2023 and YTD 2022, Topaz incurred $5.0 million and $3.0 million, respectively, of operating expenses. The increased expenses incurred in 2023 are attributed to higher labor, fuel, power, scheduled turnaround maintenance costs, and higher carbon taxes, relative to the prior comparative periods.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ($000s) | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Operating expenses | 3,022 | 1,823 | 4,962 | 3,002 |

## Marketing Expenses

Topaz pays a variable marketing fee to certain third-party royalty payors attributed to royalty production which is marketed with the respective operator's production. During Q2 2023 and Q2 2022 Topaz incurred $0.3 million and $0.7 million of marketing expenses, respectively. During YTD 2023 and YTD 2022 Topaz incurred $0.7 million and $1.1 million of marketing expenses, respectively.

Lower marketing expenses incurred in 2023 as compared to 2022 are attributed to lower royalty production revenue, driven by significantly lower underlying commodity pricing, despite higher royalty production volume.

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| ($000s) | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Marketing expenses | 315 | 669 | 684 | 1,128 |

## General & Administrative Expenses

Topaz incurs general & administrative ("G&A") expenses which include professional services and directly incurred administrative expenses. During Q2 2023 and Q2 2022, Topaz incurred total G&A expenses (net of capitalized costs) of $1.8 million and $1.3 million, respectively. During YTD 2023 and YTD 2022, Topaz incurred total G&A expenses (net of capitalized costs) of $3.4 million and $2.9 million, respectively. The increase in gross G&A expenses during Q2 2023 and YTD 2023 is attributed to additional staff, systems and rent costs in conjunction with the significant growth of the business during the last two years, which was offset by a higher capitalized portion due to the nature of the costs incurred.

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| ($000s) | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Gross G&A expense | 2,667 | 2,022 | 4,644 | 3,794 |
| Capitalized G&A expenses | (844) | (688) | (1,252) | (881) |
| **Total G&A expenses (net)** | **1,823** | **1,334** | **3,392** | **2,913** |

## Share-Based Compensation

The Company has share-based compensation plans in place whereby it may issue stock options and/or performance share units ("PSUs"), or deferred share units ("DSUs") to employees and consultants, or directors of the Company, respectively. During Q2 2023 and Q2 2022, Topaz recognized $0.2 million and $0.1 million, respectively, of share-based compensation expense (net of capitalized costs). During YTD 2023 and YTD 2022, Topaz incurred $0.5 million and $0.3 million, respectively, of share-based compensation expense (net of capitalized costs). The increase in gross share-based compensation expense during Q2 2023 and YTD 2023 is attributed to stock options and share-based awards issued in respect of a higher employee count relative to Q2 2022 and YTD 2022, due to the growth of the business.

At June 30, 2023, 2.1 million stock options (December 31, 2022 – 2.4 million), 57,596 DSUs (December 31, 2022 – 55,868) and 199,304 PSUs (December 31, 2022 – 193,389) were outstanding.

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| ($000s) | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Gross share-based compensation | 413 | 164 | 838 | 345 |
| Capitalized share-based compensation | (187) | (26) | (380) | (58) |
| Total share-based compensation expense (net) | **226** | **138** | **458** | **287** |

## Finance Expenses

Topaz incurs finance expenses which can include interest expense on its bank debt, amortization of debt transaction costs and accretion attributed to its decommissioning obligations. During Q2 2023 and Q2 2022, Topaz recognized interest expense of $7.0 million and $2.1 million, respectively. During YTD 2023 and YTD 2022, Topaz recognized interest expense of $14.3 million and $4.0 million. The increased interest expense incurred during Q2 2023 and YTD 2023 is primarily attributed to bank debt used to fund certain acquisitions late in 2022 and higher underlying market interest rates.

| | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|
| ($000s) | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Accretion expense | 32 | 29 | 63 | 56 |
| Amortization of debt transaction costs | 178 | 132 | 355 | 264 |
| Interest expense | 6,987 | 2,111 | 14,325 | 4,047 |
| **Total finance expense** | **7,197** | **2,272** | **14,743** | **4,367** |

### Depletion, Depreciation & Amortization (“DD&A”)

Topaz records D&D expense as its royalty assets are depleted on a unit-of-production basis by reference to the ratio of: royalty production in the period to total proved and probable developed reserves; and its processing facilities are depreciated on a straight-line basis over the assets' useful lives. Topaz recorded D&D expense of $54.5 million and $49.8 million during Q2 2023 and Q2 2022, respectively, and $109.8 million and $95.7 million for YTD 2023 and YTD 2022, respectively. The increases are attributed to royalty and infrastructure asset acquisitions completed during 2022.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ($000s) | Jun. 30, 2023 | Jun. 30, 2022 | Jun. 30, 2023 | Jun. 30, 2022 |
| Depletion, Depreciation & Amortization | 54,540 | 49,802 | 109,834 | 95,745 |

### Deferred Income Tax Expense

During Q2 2023 and Q2 2022, Topaz recorded deferred income tax expense of $3.8 million and $12.4 million, respectively. During YTD 2023 and YTD 2022, the Company recorded deferred income tax expense of $6.9 million and $15.1 million, respectively. The lower deferred income tax expenses incurred in Q2 2023 and YTD 2023 are attributed to lower net income primarily due to lower commodity prices relative to the prior year comparative periods.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ($000s) | Jun. 30, 2023 | Jun. 30, 2022 | Jun. 30, 2023 | Jun. 30, 2022 |
| Deferred income tax expense | 3,778 | 12,412 | 6,924 | 15,148 |

## Liquidity and Capital Resources

### Bank Debt

At June 30, 2023, Topaz had a covenant-based, unsecured, operating credit facility with a syndicate of Canadian banks in the amount of $700.0 million (“Syndicated Credit Facility”) which provides for a permitted increase to $1.0 billion, subject to agent consent. The maturity date is December 6, 2026. At the request of the Company and with consent of the lender, the Syndicated Credit Facility can be extended on an annual basis.

The Syndicated Credit Facility includes borrowing options of prime rate loans, SOFR loans, U.S. base rate loans, letters of credit and Bankers' Acceptances (or, where applicable, BA Equivalent Loans), which will bear interest on a variable grid based on certain financial ratios, over the prevailing applicable rate for that type of loan. The effective interest rate for the period ended June 30, 2023 was 6.67% (December 31, 2022 – 4.37%).

The Syndicated Credit Facility is subject to the following covenants, on a rolling four quarter basis: (i) the ratio of consolidated senior debt to EBITDA must not exceed 3.5:1, (ii) the ratio of total debt to EBITDA must not exceed 4.0:1, and (iii) the ratio of Total Debt to Capitalization must not exceed 55%.

The terms “consolidated senior debt”, “EBITDA”, “total debt”, and “capitalization” for purposes of the financial covenants are defined as follows under the Syndicated Credit Facility: “consolidated senior debt” is consolidated total debt excluding any subordinated debt, “EBITDA” is 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; “total debt” is the aggregate principal amount of all consolidated debt; all of which are determined in accordance with GAAP; “capitalization” is the aggregate of consolidated total debt, any convertible debentures and consolidated shareholders' equity.

Based on the above covenant definitions, at June 30, 2023, the ratio of consolidated senior debt to EBITDA was 1.22, total debt to EBITDA was 1.22, and total debt to capitalization was 23%. The Company is in compliance with its financial covenants.

As at June 30, 2023, there was $398.0 million (December 31, 2022 - $468.5 million) drawn on the Syndicated Credit Facility, $1.4 million in deferred financing costs (December 31, 2022 - $1.8 million), and $2.1 million in prepaid interest (December 31, 2022 - $2.1 million).

### Dividends

During Q2 2023 and YTD 2023, the Company paid $43.4 million ($0.30 per share) and $86.7 million ($0.60 per share), respectively, in dividends to its shareholders, as compared to $37.4 million ($0.26 per share) and $73.7 million ($0.52 per share) during Q2 2022 and YTD 2022.

## Shares Outstanding
At June 30, 2023, Topaz had 144.5 million common shares, 2.1 million stock options, 57,596 DSUs and 199,403 PSUs outstanding. As at July 31, 2023 Topaz had 144.5 million common shares, 2.1 million stock options, 57,596 DSUs and 199,403 PSUs outstanding.

## Capital Management
In order to manage its capital structure, the Company's objective is to maintain financial flexibility in order to distribute cash to shareholders in the form of dividends after considering the Company's operational financial requirements and its future growth opportunities. As a hybrid royalty and infrastructure company, Topaz does not have any significant capital expenditure requirements, which enhances its financial flexibility.

The Company considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may, from time-to-time issue equity, utilize available credit facilities, adjust its dividend distributions and/or adjust its investment activities to manage current and forecast debt levels. The Company's operating results and capital structure are impacted by royalty production volumes, commodity prices and level of third-party revenue generated at its non-operated processing facilities or through its contracted third-party income.

The Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of royalty interest production volume, natural gas, crude oil, and natural gas liquids prices, third-party facility utilization, operating and marketing expenses, administrative expenses, taxes and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, royalty interest production volume expectations, third-party facility utilization expectations and other factors that, in the Company's view, could impact cash from operating activities.

Management uses the terms "adjusted working capital"(1), "net debt (cash)"(1), "free cash flow ("FCF")"(1) and "Excess FCF" (1) to measure the Company's liquidity position and capital flexibility, as such these terms are considered capital management measures. "Adjusted working capital"(1) is calculated as current assets less current liabilities, adjusted for financial instruments. "Net debt (cash)"(1) is calculated as total debt outstanding less adjusted working capital. "FCF"(1) is defined as cash flow less capital expenditures and provides a measure of cash available after capital costs, but before acquisitions. Excess FCF is defined as FCF less dividends paid. Management uses FCF for its own performance measures and to provide investors with a measure 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.

At June 30, 2023, the Company had adjusted working capital of $42.2 million (December 31, 2022 - $58.7 million), in addition to unutilized capacity of $302.0 million on its Syndicated Credit Facility, and $300.0 million of additional capacity available through an accordion feature, subject to agent consent. Net debt at June 30, 2023 was $352.4 million, compared to net debt at December 31, 2022 of $405.9 million. During the six months ended June 30, 2023, the Company generated cash flow of $139.2 million, declared and paid dividends of $86.7 million and reduced net debt by $53.5 million.

For the three months ended June 30, 2023, the Company generated FCF(1) of $66.4 million (three months ended June 30, 2022 $94.1 million), after capital expenditures of $1.1 million (three months ended June 30, 2022 - $1.3 million). After the payment of dividends, Topaz generated $23.0 million of excess FCF(1) during the three months ended June 30, 2023 (three months ended June 30, 2022 - $56.7 million).

For the six months ended June 30, 2023, the Company generated FCF(1) of $137.7 million (six months ended June 30, 2022 $167.9 million), after capital expenditures of $1.6 million (three months ended June 30, 2022 - $1.7 million). After the payment of dividends, Topaz generated $51.0 million of excess FCF(1) during the six months ended June 30, 2023 (six months ended June 30, 2022 - $94.2 million).

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

As at July 31, 2023, the Company has $418.0 million drawn on the Syndicated Credit Facility.

The Company has exposure to financial risks related to its financial assets and liabilities. Financial risks include credit risk, liquidity risk, and market risk (including commodity price and interest rate risk).

### Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations in accordance with agreed terms. The Company's policy to mitigate credit risk is to establish contractual agreements with creditworthy counterparties. The Company's structure of royalty and infrastructure revenue from counterparties which Topaz considers having strong creditworthiness, significantly reduces Topaz's credit risk. As at June 30, 2023 the Company does not have any receivables (December 31, 2022 - $nil) over 90 days. As at June 30, 2023, 81% of

receivables are from four counterparties, the largest being Tourmaline. The Company is satisfied its accounts receivable amounts are collectible.

The carrying amount of cash and cash equivalents, accounts receivable and fair value of financial derivative assets represents the Company's maximum credit exposure. The Company has not recorded an expected credit loss as at June 30, 2023 (December 31, 2022 – $nil) nor was it required to write-off any receivables during the six months ended June 30, 2023 (December 31, 2022 – $nil).

**Liquidity risk**
Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations as they come due. The Company manages its liquidity risk by ensuring that it will have sufficient liquidity to meet its financial obligations under both normal and risked conditions. At June 30, 2023, the Company had adjusted working capital(1) of $42.2 million (December 31, 2022 - $58.7 million), in addition to $302.0 million available borrowing capacity on its $700.0 million Syndicated Credit Facility.

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

The timing of expected cash outflows relating to accounts payable and accrued liabilities of $5.4 million is less than one year, and the Company has no material capital or operating commitments. The Company expects to pay suppliers within 30-60 days. These terms are consistent with industry practice. As at June 30, 2023, all significant accounts payable balances were less than 90 days outstanding. Management maintains a conservative approach to debt management that aims to provide financial flexibility with respect to capital allocation and the payment of dividends to shareholders. The Board of Directors reviews and determines the dividend rate annually after considering expected commodity prices, expected royalty production volumes, expected cash flow, economic conditions, income taxes, and the Company's capacity to fund its operations and investment opportunities.

The following are the contractual maturities of financial liabilities at June 30, 2023:

| ($000s) | Total | < 1 year | 1 to 5 years |
|---|---|---|---|
| Non-derivative financial liabilities: | | | |
| Accounts payable and accrued liabilities | 5,362 | 5,362 | — |
| Bank debt | 394,552 | — | 394,552 |
| Derivative financial liabilities: | | | |
| Financial instruments | 295 | 295 | — |

**Market risk**
Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange and interest rates will affect the Company's earnings or value of financial instruments. The objective of market risk management is to manage and curtail market risk exposure within acceptable limits, while maximizing the Company's returns. The Company utilizes financial derivative contracts to manage market risks.

Interest rate risk is the risk that changes in market interest rates may affect future cash flows from the Company's financial assets or liabilities. The Company is exposed to interest rate risk to the extent that changes in market interest rates would impact any borrowings under the Company's credit facility which is subject to a floating interest rate. The Company had $398.0 million drawn on its $700.0 million Syndicated Credit Facility at June 30, 2023 (December 31, 2022 – $468.5 million). Assuming all other variables held constant for the six months ended June 30, 2023, if interest rates were 1% higher, net income before taxes would decrease by $2.8 million. An equal and opposite impact would occur with a 1% decrease in interest rates.

Commodity price risk is the risk that the fair value or future cash flow will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are based upon the US dollar and as a result the price received by Canadian producers is affected by the Canadian to US dollar exchange rate. The commodity prices are also impacted by weather and world economic events that dictate the levels of supply and demand. Over the past few years, the market has experienced volatile supply and demand changes, ranging from excess supply to significant supply and demand volatility attributed to the COVID-19 global health crisis and war in Ukraine. In 2022 and 2023, supply has been moderated yet the COVID-19 pandemic and the war in Ukraine continue to have an impact on the global economy and contribute to supply and demand volatility in global crude oil, natural gas and natural gas liquids.

The Company has entered into certain financial derivative contracts in order to manage commodity price risk. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all financial derivative contracts to be effective economic hedges. As a result, all financial instruments are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the consolidated statements of income and comprehensive income.

**Financial Instruments**

The Company utilizes financial derivative contracts as a risk management technique to mitigate exposure to commodity price volatility. The following tables present the financial derivative contracts and foreign exchange financial instruments outstanding as at June 30, 2023, for the subsequent year. The fair value of Topaz's total outstanding contracts is a net asset of $1.9 million as at June 30, 2023 (net asset of $6.2 million at December 31, 2022) as detailed below.

| | | Q3 2023 | Q4 2023 | Q1 2024 | Q2 2024 |
|---|---|---|---|---|---|
| **AECO (5A) Fixed price contracts** | Average Volumes (GJ/d) | 7,500 | 7,500 | 7,500 | 7,500 |
| | W.A.[1] Price (C$/GJ) | $3.17 | $3.17 | $3.17 | $3.17 |
| **Station 2 Fixed price contracts** | Average Volumes (GJ/d) | — | — | 2,500 | 2,500 |
| | W.A.[1] Price (C$/GJ) | — | — | $2.63 | $2.63 |
| **WTI CAD Fixed price contracts** | Average Volumes (bbl/d) | 500 | 500 | — | — |
| | W.A.[1] Price (C$/bbl) | $100.80 | $100.80 | — | — |
| **WTI CAD Costless Collar** | Average Volumes (bbl/d) | 500 | 500 | — | — |
| | W.A.[1] price range (C$/bbl) | $95.00 - $105.00 | $95.00 - $105.00 | — | — |
| **AECO Basis Swap (7A)** | Average Volumes (mmbtu/d) | 7,500 | 2,527 | — | — |
| | W.A.[1] Price (US$/mmbtu) | $0.775 | $0.775 | — | — |
| **AECO CAD Swap (5A to 7A)** | Average Volumes (GJ/d) | 27,500 | 9,266 | — | — |
| | W.A.[1] Price (C$/GJ) | $ — | $ — | — | — |

(1) Weighted average.

| Contract type and currency | Term | Notional Amount (USD $000/month) | Floor price | Ceiling price |
|---|---|---|---|---|
| USD/CAD variable rate collar | July 2023 - December 2023 | 1,500 | $ 1.3200 | $ 1.3725 |
| USD/CAD variable rate collar | July 2023 - February 2024 | 3,000 | $ 1.3315 | $ 1.3885 |

As at June 30, 2023 and December 31, 2022, the reconciliation of financial instruments to the consolidated statements of financial position includes:

| | As at June 30, 2023 | | As at December 31, 2022 | |
|---|---|---|---|---|
| ($000s) | Asset | Liability | Asset | Liability |
| Current financial instruments | 2,034 | 295 | 6,235 | — |
| Long term financial instruments | 146 | — | — | — |

The following table provides the realized and unrealized gains (losses) on financial instruments for the periods presented. During Q2 2023 and Q2 2022, the Company realized a $4.9 million gain and a $9.7 million loss on financial instruments, respectively, and during the same periods, recorded an unrealized gain on financial instruments of $0.6 million and $16.6 million, respectively. During YTD 2023 and YTD 2022, Topaz realized a $9.7 million gain and a $11.7 million loss on financial instruments, respectively, and during the same periods, recorded an unrealized loss of $4.4 million and unrealized gain of $2.8 million respectively.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ($000s) | Jun. 30, 2023 | Jun. 30, 2022 | Jun. 30, 2023 | Jun. 30, 2022 |
| Realized gain (loss) on financial instruments | 4,945 | (9,658) | 9,741 | (11,673) |
| Unrealized gain (loss) on financial instruments | 642 | 16,598 | (4,350) | 2,819 |
| **Total** | **5,587** | **6,940** | **5,391** | **(8,854)** |

The Company's financial derivative contracts are sensitive to fluctuations in commodity prices. For the contracts in place at June 30, 2023, if the future strip prices for natural gas were $0.10 per mcf higher and future strip prices for crude oil were $1.00 per BBL higher, with all other variables held constant, the YTD 2023 unrealized loss would increase by $0.8 million, directly impacting net income (June 30, 2022 – unrealized gain would increase by $0.8 million). An equal and opposite impact would have occurred if natural gas prices were $0.10 per mcf lower and crude oil prices were $1.00 per BBL lower.

## Capital Expenditures

During Q2 2023 and Q2 2022, Topaz incurred capital expenditures of $1.1 million and $1.3 million, respectively and during YTD 2023 and YTD 2022, the Company incurred capital expenditures of $1.6 million and $1.7 million, respectively. Topaz's capital expenditures are incurred in respect of its proportionate ownership share of capital maintenance on certain natural gas processing facilities as well as capitalized G&A costs in respect of directly attributable business development costs.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ($000s) | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Capital expenditures | 1,099 | 1,267 | 1,574 | 1,657 |

## Acquisitions

During Q2 2023 and Q2 2022, Topaz incurred $0.4 million and $99.6 million, respectively, on acquisitions. During YTD 2023 and YTD 2022, the Company incurred $0.5 million and $99.8 million, respectively, on acquisitions.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ($000s) | **Jun. 30, 2023** | **Jun. 30, 2022** | **Jun. 30, 2023** | **Jun. 30, 2022** |
| Acquisitions (excl. non-cash decommissioning obligations)(1) | 447 | 99,554 | 483 | 99,816 |

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

## Commitments and Contractual Obligations

At June 30, 2023 and December 31, 2022, Topaz does not have any material commitments or contractual obligations.

## Off Balance Sheet Arrangements

At June 30, 2023 and December 31, 2022, Topaz does not believe it has any guarantees or off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, results of operations, liquidity or capital expenditures.

## Related Party Transactions

The Company has entered into a number of agreements relating to both royalty and infrastructure assets with Tourmaline Oil Corp. ("Tourmaline") who had a 31.2% ownership interest in the common shares of the Company as at June 30, 2023. At June 30, 2023, $23.1 million (December 31, 2022 - $42.3 million) of the accounts receivable balance was due from Tourmaline, all of which was subsequently collected in the normal course of business. There are no bad debts outstanding relating to Tourmaline as at June 30, 2023 and December 31, 2022. During the three and six months ended June 30, 2023, 45% and 50%, respectively, of royalty production revenue and 70% and 71%, respectively, of processing revenue was generated from Tourmaline (three and six months ended June 30, 2022 – 66% and 66% of royalty revenue, and 73% and 74% of processing revenue, respectively).

The Company pays a marketing fee to Tourmaline for the Company's royalty production that is marketed with Tourmaline's production. During the three and six months ended June 30, 2023, the Company paid $0.3 million and $0.7 million, (three and six months ended June 30, 2022 - $0.6 million and $1.0 million, respectively), in respect of marketing fees, which were incurred in the normal course of operations.

During the three and six months ended June 30, 2023, the Company paid $0.05 million and $0.1 million (three and six months ended June 30, 2022 - $0.05 million and $0.1 million, respectively) in rent expense to Tourmaline, which were incurred in the normal course of operations.

## Segment information

The Company has two reportable segments: royalty production and infrastructure. Management reviews the operating results at this level to assess financial performance and make resource allocation decisions.

The Company's reconciliation of cash flow and total assets between operating segments as at and for the three and six months ended June 30, 2023 is as follows:

| **Three months ended Jun. 30, 2023** ('000s) | **Royalties** | **Infrastructure** | **Total** |
|---|---|---|---|
| Royalty production revenue | 57,667 | – | **57,667** |
| Processing revenue | – | 13,397 | **13,397** |
| Other income | – | 3,616 | **3,616** |
| **Total** | **57,667** | **17,013** | **74,680** |
| Cash expenses | | | |
| Operating expense | – | (3,022) | **(3,022)** |
| Marketing expense | (315) | – | **(315)** |
| General and administrative expense | (1,472) | (351) | **(1,823)** |
| Realized gain on financial instruments | 4,945 | – | **4,945** |
| Interest expense | (5,642) | (1,345) | **(6,987)** |
| **Cash flow** | **55,183** | **12,295** | **67,478** |

| **Six months ended Jun. 30, 2023 ('000s)** | **Royalties** | **Infrastructure** | **Total** |
|---|---|---|---|
| Royalty production revenue | 118,591 | – | **118,591** |
| Processing revenue | – | 26,968 | **26,968** |
| Other income | – | 7,306 | **7,306** |
| **Total** | **118,591** | **34,274** | **152,865** |
| Cash expenses | | | |
| Operating expense | – | (4,962) | **(4,962)** |
| Marketing expense | (684) | – | **(684)** |
| General and administrative expense | (2,760) | (632) | **(3,392)** |
| Realized gain on financial instruments | 9,741 | – | **9,741** |
| Interest expense | (11,653) | (2,672) | **(14,325)** |
| **Cash Flow** | **113,235** | **26,008** | **139,243** |

| **As at Jun. 30, 2023 ('000s)** | **Royalties** | **Infrastructure** | **Total** |
|---|---|---|---|
| Total Assets | 1,383,569 | 317,324 | **1,700,893** |

The Company's reconciliation of cash flow and total assets between operating segments for the three and six months ended June 30, 2022, and as at December 31, 2022 is as follows:

| **Three months ended Jun. 30, 2022 ('000s)** | **Royalties** | **Infrastructure** | **Total** |
|---|---|---|---|
| Royalty production revenue | 94,776 | – | **94,776** |
| Processing revenue | – | 12,907 | **12,907** |
| Other income | – | 3,300 | **3,300** |
| **Total** | **94,776** | **16,207** | **110,983** |
| Cash expenses | | | |
| Operating expense | – | (1,823) | **(1,823)** |
| Marketing expense | (669) | – | **(669)** |
| General and administrative expense | (1,081) | (253) | **(1,334)** |
| Realized loss of financial instruments | (9,658) | – | **(9,658)** |
| Interest expense | (1,710) | (401) | **(2,111)** |
| **Cash Flow** | **81,658** | **13,730** | **95,388** |

| Six months ended Jun. 30, 2022 ('000s) | Royalties | Infrastructure | Total |
|---|---|---|---|
| Royalty production revenue | 160,520 | – | **160,520** |
| Processing revenue | – | 25,985 | **25,985** |
| Other income | – | 5,820 | **5,820** |
| **Total** | **160,520** | **31,805** | **192,325** |
| Cash expenses | | | |
| Operating expense | – | (3,002) | **(3,002)** |
| Marketing expense | (1,128) | – | **(1,128)** |
| General and administrative expense | (2,360) | (553) | **(2,913)** |
| Realized loss of financial instruments | (11,673) | – | **(11,673)** |
| Interest expense | (3,278) | (769) | **(4,047)** |
| **Cash Flow** | **142,081** | **27,481** | **169,562** |

| As at Dec. 31, 2022 ('000s) | Royalties | Infrastructure | Total |
|---|---|---|---|
| Total Assets | 1,510,701 | 325,031 | **1,835,732** |

## Subsequent Event

On July 31, 2023, Topaz acquired a 49.9% working interest in a newly constructed and commissioned sweet natural gas processing facility and associated crude oil battery (the “Facility Interests”), in addition to gross overriding royalty interests in the Clearwater and Charlie Lake operating areas of Alberta (the “Royalty Interests”), for total cash consideration of $39.5 million, before customary closing adjustments. 100% of the Facility Interests are supported by a 15-year fixed take-or-pay contractual commitment. The transaction was funded through the Company’s Syndicated Credit Facility.

## Application of Critical Accounting Estimates

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses.

Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates. The Company’s use of estimates and judgments in preparing the Interim Financial Statements is discussed in the Annual Consolidated Financial Statement note 2d for the year ended December 31, 2022 and 2021.

## Changes in Accounting Policies

There were no significant new accounting standards or interpretations issued during the three and six months ended June 30, 2023, that have an impact on the Company.

## Internal Controls over Financial Reporting (“ICFR”)

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings (“NI 52-109”), to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the periods in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR"), as defined by NI 52-109, to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP.

There were no changes in the Company's DC&P or ICFR during the period beginning on April 1, 2023 and ending June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's DC&P or ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

The Company uses the guidelines as set forth in the Committee of Sponsoring Organizations of the Treadway Commission 2013 Internal Control-Integrated Framework.

## Non-GAAP and Other Financial Measures

Certain financial terms and measures contained in this MD&A 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 MD&A 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 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.

This MD&A 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. As at June 30, 2023, the Company's capital management measures disclosed in the notes to the Interim Consolidated Financial Statements include adjusted working capital, net debt (cash), free cash flow (FCF) and Excess FCF.

***Supplementary financial measures***

This MD&A 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 financial 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 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:

| ($000s) | Three months ended Jun. 30, 2023 | Jun. 30, 2022 | Six months ended 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” 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 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:

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

| ($000s) | Three months ended Jun. 30, 2023 | Three months ended Jun. 30, 2022 | Six months ended Jun. 30, 2023 | Six months ended 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** |

## SELECTED QUARTERLY INFORMATION

| Three months ended<br>($000s) except per share | Jun. 30, 2023 | Mar. 31, 2023 | Dec. 31, 2022 | Sept. 30, 2022 |
|---|---|---|---|---|
| Royalty production revenue | 57,667 | 60,924 | 77,809 | 65,482 |
| Processing revenue | 13,397 | 13,571 | 13,841 | 13,098 |
| Other income[(5)] | 3,616 | 3,690 | 3,993 | 3,099 |
| **Total** | 74,680 | 78,185 | 95,643 | 81,679 |
| Cash expenses: | | | | |
| Operating | (3,022) | (1,940) | (1,785) | (1,587) |
| Marketing | (315) | (369) | (486) | (420) |
| General and administrative | (1,823) | (1,569) | (1,828) | (1,699) |
| Realized gain (loss) on financial instruments | 4,945 | 4,796 | 1,614 | 2,624 |
| Interest expense | (6,987) | (7,338) | (6,885) | (2,669) |
| **Cash flow** | 67,478 | 71,765 | 86,273 | 77,928 |
| Per basic share[(1)(2)] | $0.47 | $0.50 | $0.60 | $0.54 |
| Per diluted share[(1)(2)] | $0.47 | $0.50 | $0.60 | $0.54 |
| Cash from operating activities | 73,304 | 85,659 | 69,214 | 99,972 |
| Per basic share[(1)(2)] | $0.51 | $0.59 | $0.48 | $0.69 |
| Per diluted share[(1)(2)] | $0.51 | $0.59 | $0.48 | $0.69 |
| Net income | 9,366 | 7,893 | 19,094 | 19,380 |
| Per basic share[(1)(2)] | $0.06 | $0.05 | $0.13 | $0.13 |
| Per diluted share[(1)(2)] | $0.06 | $0.05 | $0.13 | $0.13 |
| Dividends paid | 43,355 | 43,309 | 43,244 | 40,364 |
| Per share[(1)(6)] | $0.30 | $0.30 | $0.30 | $0.28 |
| Capital expenditures | 1,099 | 475 | 1,255 | 926 |
| Acquisitions, excl. decommissioning obligations[(1)] | 447 | 36 | 7,538 | 328,285 |
| Basic W.A.[(4)] shares outstanding[(3)] | 144,438 | 144,336 | 144,153 | 144,008 |
| Diluted W.A.[(4)] shares outstanding[(3)] | 144,990 | 144,943 | 144,976 | 144,728 |
| **Selected statement of financial position results** ($000s) | **At Jun. 30, 2023** | **At Mar. 31, 2023** | **At Dec. 31, 2022** | **At Sept. 30, 2022** |
| Total assets | 1,700,893 | 1,766,639 | 1,835,732 | 1,875,465 |
| Working capital | 43,898 | 52,940 | 64,948 | 44,507 |
| Adjusted working capital[(1)] | 42,159 | 49,822 | 58,713 | 42,019 |
| Net debt (cash)[(1)] | 352,393 | 376,487 | 405,871 | 439,954 |
| Common shares outstanding[(3)] | 144,522 | 144,364 | 144,211 | 144,147 |

| Three months ended<br>($000s) except per share | Jun. 30, 2022 | Mar. 31, 2022 | Dec. 31, 2021 | Sept. 30, 2021 |
|---|---|---|---|---|
| Royalty production revenue | 94,776 | 65,744 | 59,709 | 40,558 |
| Processing revenue | 12,907 | 13,078 | 12,906 | 12,781 |
| Other income[(5)] | 3,300 | 2,520 | 3,061 | 3,804 |
| **Total** | 110,983 | 81,342 | 75,676 | 57,143 |
| Cash expenses: | | | | |
| Operating | (1,823) | (1,179) | (946) | (1,238) |
| Marketing | (669) | (459) | (463) | (355) |
| General and administrative | (1,334) | (1,579) | (1,281) | (1,478) |
| Realized loss on financial instruments | (9,658) | (2,015) | (3,004) | (2,258) |
| Interest expense | (2,111) | (1,936) | (1,648) | (973) |
| **Cash flow** | 95,388 | 74,174 | 68,334 | 50,841 |
| Per basic share[(1)(2)] | $0.67 | $0.53 | $0.50 | $0.39 |
| Per diluted share[(1)(2)] | $0.66 | $0.53 | $0.50 | $0.39 |
| Cash from operating activities | 80,708 | 67,984 | 56,562 | 41,990 |
| Per basic share[(1)(2)] | $0.57 | $0.49 | $0.41 | $0.33 |
| Per diluted share[(1)(2)] | $0.56 | $0.48 | $0.41 | $0.32 |
| Net income | 49,473 | 11,408 | 16,276 | 5,014 |
| Per basic share[(1)(2)] | $0.35 | $0.08 | $0.12 | $0.04 |
| Per diluted share[(1)(2)] | $0.34 | $0.08 | $0.12 | $0.04 |
| Dividends paid | 37,392 | 36,288 | 33,422 | 27,048 |
| Per share[(1)(6)] | $0.26 | $0.26 | $0.24 | $0.21 |
| Capital expenditures | 1,267 | 390 | 1,187 | 1,046 |
| Acquisitions, excl. decommissioning obligations[(1)] | 99,554 | 262 | 218,834 | 409,961 |
| Basic W.A.[(4)] shares outstanding[(3)] | 142,494 | 139,461 | 136,391 | 128,749 |
| Diluted W.A.[(4)] shares outstanding[(3)] | 143,471 | 140,289 | 137,167 | 129,421 |
| **Selected statement of financial position results** ($000s) | **At Jun. 30, 2022** | **At Mar. 31, 2022** | **At Dec. 31, 2021** | **At Sept. 30, 2021** |
| Total assets | 1,641,508 | 1,568,256 | 1,611,752 | 1,455,509 |
| Working capital | 75,623 | 36,216 | 43,750 | 51,053 |
| Adjusted working capital[(1)] | 72,258 | 49,449 | 43,204 | 54,446 |
| Net debt (cash)[(1)] | 151,316 | 193,863 | 233,658 | 219,476 |
| Common shares outstanding[(3)] | 143,824 | 139,570 | 139,333 | 128,803 |

(1) Refer to "*Non-GAAP and Other Financial Measures*".
(2) As noted, calculated using the basic or diluted weighted average number of shares outstanding during the respective periods.
(3) Presented in thousand shares outstanding.
(4) Weighted average.
(5) Includes interest income in Q2 2023 - $0.1 million (Q1 2023 - $0.2 million, Q4 2022 - $0.2 million, Q3 2022 - $0.1 million, Q2 2022 - $0.04 million, Q1 2022 - $0.01 million, Q4 2021 - $0.004 million, Q3 2021 – $0.02 million).
(6) Represents the cumulative per share dividends paid to shareholders of record during the respective periods.

## SELECTED ANNUAL INFORMATION FROM CONTINUING OPERATIONS

| ($000s) except per share | Year ended Dec. 31, 2022 | Year ended Dec. 31, 2021 | Year ended Dec. 31, 2020 |
|---|---|---|---|
| Royalty production revenue | 303,811 | 151,894 | 58,886 |
| Processing revenue | 52,924 | 46,720 | 30,757 |
| Other income[5] | 12,912 | 12,925 | 10,233 |
| **Total** | **369,647** | **211,539** | **99,876** |
| Cash expenses: | | | |
| Operating | (6,374) | (4,245) | (4,205) |
| Marketing | (2,034) | (1,311) | (589) |
| General and administrative | (6,440) | (5,051) | (3,946) |
| Realized loss on financial instruments | (7,435) | (6,990) | (1,438) |
| Interest expense | (13,601) | (3,001) | (620) |
| **Cash flow** | **333,763** | **190,941** | **89,078** |
| Per basic share[1][2] | $2.34 | $1.54 | $0.99 |
| Per diluted share[1][2] | $2.33 | $1.54 | $0.98 |
| Cash from (used in) operating activities | 317,878 | 165,017 | 83,642 |
| Per basic share[1][2] | $2.23 | $1.33 | $0.93 |
| Per diluted share[1][2] | $2.22 | $1.33 | $0.92 |
| Net income | 99,355 | 27,564 | 3,089 |
| Per basic share[2] | $0.70 | $0.22 | $0.03 |
| Per diluted share[2] | $0.69 | $0.22 | $0.03 |
| Dividends paid | 157,288 | 108,739 | 73,131 |
| Per share[2][6] | $1.10 | $0.85 | $0.80 |
| Capital expenditures | 3,838 | 2,777 | 1,256 |
| Basic W.A.[4] shares outstanding[3] | 142,546 | 123,703 | 90,110 |
| Diluted W.A.[4] shares outstanding[3] | 143,302 | 124,361 | 90,547 |

| **Selected statement of financial position results** ($000s) | At Dec. 31, 2022 | At Dec. 31, 2021 | At Dec. 31, 2020 |
|---|---|---|---|
| Total assets | 1,835,732 | 1,611,752 | 1,008,546 |
| Working capital | 64,948 | 43,750 | 237,675 |
| Adjusted working capital[1] | 58,713 | 43,204 | 238,268 |
| Common shares outstanding[3] | 144,211 | 139,333 | 112,449 |

(1) Refer to "*Non-GAAP and Other Financial Measures*".
(2) As noted, calculated using the basic or diluted weighted average number of shares outstanding during the respective periods.
(3) Presented in thousand shares outstanding.
(4) Weighted average.
(5) Includes interest income for 2022 of $0.3 million (2021 - $0.3 million and 2020 - $0.4 million).
(6) Represents the cumulative per share dividends paid to shareholders of record during the respective periods.

## Quarterly and Annual Results

The oil and natural gas exploration and production industry is cyclical in nature. Topaz's financial position, results of operations and cash flows are affected by commodity prices and production levels as its royalty production revenue is directly impacted by commodity prices and production levels. In addition, commodity prices and production levels can indirectly affect its processing fee revenue and other income.

Topaz commenced its operations on November 14, 2019 and has seen significant growth in average royalty production since that period. Royalty production during the Company's first reporting period from November 14, 2019 to December 31, 2019 averaged 10,455 boe/d which has increased by 76% to average quarterly royalty production of 18,411 boe/d during the second quarter of 2023. The increase in quarterly average production is attributed to royalty acquisitions and increased royalty production attributed to operator-funded organic development on Topaz's royalty acreage. Topaz's cash flow of $67.5 million during Q2 2023 was 29% lower than the $95.4 million of cash flow generated during the second quarter of 2022, and 6% lower than the $71.8 million of cash flow generated during the first quarter of 2023. The decrease in cash flow in Q2 2023 is a result of lower commodity pricing during the period (a 45% decrease in total realized commodity pricing between Q2 2023 and Q2 2022, and a decrease of 4% in total realized commodity pricing between Q2 2023 and Q1 2023), offset by royalty production growth. Changes in commodity prices impact Topaz's royalty revenue and cash flow and can indirectly affect its processing fee revenue and other income.

Topaz's average royalty production for the year ended December 31, 2022 of 16,914 boe/d was 20% higher than the average production during the year ended December 31, 2021 (14,103 boe/d). The increase in annual average production is attributed to royalty acquisitions and increased royalty production attributed to operator-funded organic development on Topaz's royalty acreage. Topaz's cash flow of $333.8 million for the year ended December 31, 2022 was significantly higher than cash flow of $190.9 million during the year ended December 31, 2021 and 3.7 times greater than cash flow of $89.1 million for the year ended December 31, 2020. The increases are attributed to the acquisitions that were completed during the last two years, as well as operator-funded organic development on Topaz's royalty acreage, and increased commodity pricing.

## SUPPLEMENTAL INFORMATION REGARDING PRODUCT TYPES

The following table is intended to provide supplemental information about the product type and composition for each of the royalty production volume figures that are provided throughout this MD&A.

| 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** |

### Advisories and Forward-Looking Statements

This MD&A contains forward-looking information and statements (collectively, "forward-looking information") within the meaning of applicable securities laws. This forward-looking information relates to future events or Topaz's future performance. All information other than information of historical fact is forward-looking information. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions are intended to identify forward-looking information. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. No assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon. This information speaks only as of the date of this MD&A or, if applicable, as of the date specified in those documents specifically referenced herein. In addition, this MD&A may contain forward-looking information attributed to third-party sources.

Without limitation of the foregoing, this MD&A contains forward-looking information pertaining to the following:

- expectations for Topaz's future financial and operational performance;
- growth and realization of future value from its GORR on Tourmaline and other third-party lands;
- interests in natural gas processing plants and other infrastructure operated by Tourmaline and other third parties and associated long term take-or-pay commitments from operators;
- a contracted interest in certain third-party revenues for natural gas processing and other acquired or proposed to be acquired assets (collectively, the "Assets");
- estimated future revenue and growth opportunities associated with the Assets;
- estimated future dividends and dividend policy;
- production estimates;
- future demand for and prices of commodities;
- business prospects;
- the ability to complete the acquisition of certain assets and the timing for completion thereof;
- the future scalability of Topaz's business model;
- potential future acquisitions and other transactions;
- anticipated payout ratios, distribution yields, revenue accretion and financial performance or outlooks;
- potential for future tax planning transactions;
- future costs, capital expenditures and debt levels of Topaz;
- the reserve potential of royalty payor's assets; and
- the anticipated production from third-party's assets and anticipated future cash flows from such assets.

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 will be dependent upon, among other things, cash flow, 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 the Syndicated Credit Facility.

With respect to forward-looking information contained in this MD&A, assumptions have been made regarding, among other things:

- future crude oil, heavy oil, natural gas liquids and natural gas prices;
- future interest rates and currency exchange rates;
- Topaz's ability to obtain and retain qualified staff and equipment in a timely and cost–efficient manner;
- the regulatory framework governing royalties, taxes and environmental matters;
- the ability to market production of crude oil and natural gas successfully;
- third-party future production levels and growth prospects;
- the applicability of technologies for recovery and production of third-party reserves;
- future capital expenditures to be made by Topaz;
- future cash flows from production meeting the expectations stated in this MD&A;
- the impact of competition on Topaz; and
- Topaz's ability to obtain financing (equity or debt) on acceptable terms.

The information in this MD&A, including Topaz's actual results, could differ materially from those anticipated in the forward-looking information due to a number of factors and risks, including the following:

- the amount of capital expenditures and the results of operations and development activities by the owners of Topaz's royalty interest lands;
- changes in laws or royalty regimes;
- investor demand for any equity offering;
- credit and other third-party or counterparty risks;
- failure to complete or realize the benefits of Topaz's initial acquisition completed in 2019 and subsequent acquisitions;
- the Assets not being developed by counterparties in the manner anticipated by Topaz;
- the continuance of third-party processing and other fees at competitive market rates and current demand levels;
- volatility in the demand, supply and market prices for crude oil, heavy oil, natural gas and natural gas liquids;
- reliance on Tourmaline and other third parties with respect to annual revenue streams;
- liabilities inherent in petroleum and natural gas operations;
- uncertainties associated with estimating crude oil, heavy oil, natural gas liquids and natural gas reserves and future production levels;
- competition for, among other things, third-party capital and acquisitions of reserves, additional petroleum and natural gas assets and undeveloped lands;
- incorrect assessments of the value of the Assets or future acquisitions;
- risks related to the environment and changing environmental laws in relation to the operations conducted on or with respect to the Assets;
- claims made or legal actions brought or realized against Topaz or its properties or assets;
- a failure by Topaz to obtain or retain key personnel;
- a decrease or elimination of the payment of dividends by Topaz as a result of a board determination, financial constraints or restrictions under applicable agreements or corporate laws;
- general economic, market and business conditions; and
- changes in tax or environmental laws or royalty or incentive programs relating to the crude oil and natural gas industry.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A, in order to provide readers with a more complete perspective on Topaz's future operations and such information may not be appropriate for other purposes. Topaz's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, if any, that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

These forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update any forward-looking statements, whether, as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

**Boe Conversions**
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.

**Abbreviations**

| | |
|---|---|
| 000's | thousand dollars |
| bbl | barrel |
| bbl/d | barrels per day |
| bcf | billion cubic feet |
| boe/d | barrel of oil equivalent per day |
| CAD | Canadian dollar |
| Crude oil | Light and medium crude oil combined |
| GJ | gigajoule |
| GJ/d | gigajoules per day |
| mbbls | thousand barrels |
| mboe | thousand barrels of oil equivalent |
| mcf | thousand cubic feet |
| mcf/d | thousand cubic feet per day |
| mmbbls | million barrels |
| mmboe | millions of barrels of oil equivalent |
| mmcf | million cubic feet |
| mmcf/d | million cubic feet per day |
| USD | United States dollar |
| WTI | West Texas Intermediate |
| WCS | Western Canada Select |