TOPAZ ENERGY

# THIRD QUARTER 2020 REPORT

## MANAGEMENT'S
## DISCUSSION AND ANALYSIS

Three and nine months ended September 30, 2020

## FINANCIAL STATEMENTS

As at September 30, 2020 and December 31, 2019,
and for the three and nine months ended September 30, 2020

## Management’s Discussion and Analysis

This Management’s Discussion and Analysis (“MD&A”) presents the results of operations of Topaz Energy Corp. (“Topaz” or the “Company”) for the three and nine months ended September 30, 2020 and should be read in conjunction with the unaudited interim condensed financial statements as at and for the three and nine months ended September 30, 2020 and the audited financial statements as at June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and for the year ended December 31, 2019, together with the accompanying notes (“Financial Statements”). This MD&A is dated November 10, 2020.

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

Certain measures in this MD&A do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP financial measures. Non-GAAP financial measures are commonly used in the oil and gas industry and by Topaz for its own performance measures and to provide shareholders and potential investors with a measurement of the Company’s efficiency and its ability to generate the cash necessary to fund dividends and a portion of its future growth expenditures or to repay debt. Accordingly, readers are cautioned that non-GAAP financial measures should not be considered in isolation nor as an alternative to net income (loss) or other financial information determined in accordance with GAAP as an indication of the Company’s performance. Non-GAAP financial measures used in this MD&A include “cash flow”, “EBITDA”, “EBITDA margin,” “payout ratio,” “working capital,” “adjusted working capital,” and “net debt (cash)”,. Further information including reconciliations to the most comparable measure under GAAP, can be found in the "Non-GAAP Financial Measures" section of this MD&A.

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”); thousand cubic feet (“mcf”) per day (“mcf/d”). Barrel of oil equivalent (“boe”) is an industry measurement to summarize the amount of energy equivalent found in a barrel of crude. Further information including energy conversions, forward-looking statements and certain other abbreviations, can be found in the Advisory section of this MD&A.

## Development of the Business

Topaz is a unique royalty and energy infrastructure company focused on generating free cash flow growth and paying reliable and sustainable dividends to its shareholders, through its strategic relationship with one of Canada's largest natural gas producers, 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 best practices.

Topaz’s current business was established in November 2019 with the acquisition of certain royalty and infrastructure ownership and revenue interests from Tourmaline for total cash and share consideration with a value of $637.0 million (the “Initial Acquisition”). The assets acquired pursuant to the Initial Acquisition included: (i) a newly created gross overriding royalty interest on natural gas, crude oil, and condensate production on 100% of Tourmaline's existing developed and undeveloped lands; (ii) a non-operated 45% jointly owned interest in two of Tourmaline's existing 19 natural gas processing facilities, supported by newly created long-term take-or-pay commitments from Tourmaline in relation to the two facilities; and (iii) a newly created contracted interest in a portion of certain third-party revenues generated by natural gas processing and handling agreements to which Tourmaline is a party (collectively, the “Initial Assets.”)

The cash portion of the consideration for the Initial Acquisition was funded by an equity financing in November 2019 of 20.9 million Topaz common shares (“Common Shares”) at a price of $10.00 per share.

Prior to the completion of the Initial Acquisition, Topaz (named “Exshaw Oil Corp.” prior to November 8, 2019) had been engaged in upstream oil and gas exploration and production. On November 12, 2019 Topaz sold all of its E&P assets (representing substantially all of its assets except for its deferred tax assets and $1.0 million in cash) to Tourmaline (the "E&P Asset Disposition"). The Company has presented the results of Exshaw’s operations (prior to the closing of the Initial Acquisition on November 14, 2019) as discontinued operations in its financial statements. For further details related to the discontinued operations please refer to the “Discontinued Operations” section of this MD&A and the Financial Statements.

On June 29, 2020, Topaz completed a private placement of 11.7 million Common Shares for gross proceeds of $128.6 million. The Company incurred share issue costs of $2.8 million, net of tax. On July 6, 2020, Topaz completed a second tranche to its June 29, 2020 private placement and issued 1.5 million Common Shares for gross proceeds of $16.7 million. Following the second closing, Topaz was 63.5% owned by Tourmaline and 36.5% owned by other investors.

On October 26, 2020 completed its initial public offering consisting of a treasury offering by the Company and a secondary offering by its majority shareholder, Tourmaline, of an aggregate of 17.7 million Common Shares at a price of $13.00 per Common Share for gross proceeds to the Company and Tourmaline of approximately $217.5 million and $13.0 million, respectively. On November 9, 2020, the underwriters exercised the over-allotment option in full, and purchased 2.5 million Common Shares at $13.00 per share (the "Over-Allotment Option), for gross proceeds to the Company of $32.6 million. Following the closing of the Over-Allotment Option, there are 112,448,946 Common Shares outstanding, of which Tourmaline holds 51.7%. The Common Shares trade on the Toronto Stock Exchange under the symbol "TPZ".

## Business Strategy

The Company's business model is designed to provide investors with exposure to the best attributes from each of the royalty and energy infrastructure segments: (i) royalty production revenue generated from GORR production whereby the Company receives market indexed pricing (net of a 1% marketing fee on the developed lands) with no associated operating or capital costs and underpinned by Tourmaline's self-funded development; (ii) processing revenue generated through its non-operated ownership interests in processing facilities whereby the Company has fixed take-or-pay arrangements with high-quality counterparties under long-term commercial arrangements with minimal associated operating and capital costs; (iii) other income which is generated by way of a contracted interest in third party revenue generated through fee-for-service natural gas processing contracts with no underlying facility ownership and therefore no associated operating or capital costs; (iv) modest corporate overhead costs; (v) long-term horizon before income tax would be payable; and (vi) transparent outlook to the Company's opportunistic growth prospects. Topaz's unique, low risk, income-oriented business model positions the Company to be a partner of choice for high quality operators seeking to access capital to achieve their business plans in the current environment.

Topaz intends to use the majority of its free cash flow to pay dividends to shareholders and the Company has a long-term payout ratio target of 60-90%. The Company's board of directors (the "Board") has established a dividend policy pursuant to which the Company intends to pay an annual dividend in the amount of $0.80 per Common Share on a quarterly ($0.20 per share) basis, which represented a payout ratio of approximately 82% for the nine months ended September 30, 2020. The Company declared a dividend of $0.20 per share, to shareholders of record on September 15, 2020, which was paid on September 30, 2020. On November 10, 2020, Topaz's Board declared its fourth quarter dividend of $0.20 per share which is expected to be paid on December 31, 2020 to shareholders of record on December 15, 2020.

## Additional Information

Additional information about Topaz is available through the Company's website (www.topazenergy.ca), or through SEDAR (www.sedar.com).

## Business Environment

The COVID-19 pandemic and other macro-economic conditions around the world have contributed to a drastic decrease in global oil and liquids demand since the beginning of 2020. These events have resulted in significant price volatility of oil and liquids prices and increased economic uncertainty. Natural gas prices have also been very volatile, however, in recent months, the forward curve for both AECO and NYMEX has been strengthening which has helped to offset some of the impact of the significant decrease in oil and liquids prices. While there has been little to no disruption to date to the Company's business, the oil and condensate prices Topaz receives for its oil and condensate royalty revenue have been affected by the weakness in crude oil prices with the price of WTI dropping from US$50.54 per barrel in February to US$30.45 per barrel in March 2020 before collapsing even further in April and May. Fortunately for Topaz, the Company has been somewhat insulated by virtue of its royalty and infrastructure business model and the royalty production mix consisting of over 90% natural gas. During this period of uncertainty, the Company is committed to maintaining its strong balance sheet and financial liquidity. At this time, the extent to which COVID-19 may continue to affect the Company is uncertain; however, it is possible that COVID-19 may have further adverse effects on commodity prices, the Company's business and income streams, results of operations and financial condition depending on the severity and duration of the pandemic. In response to the COVID-19 pandemic, the Company is following all applicable rules and regulations as set out by the relevant health authorities in response to the COVID-19 pandemic. The Company's staff have been able to adapt to the new work environment without significant disruptions.

## Highlights from Continuing Operations

During the three and nine months ended September 30, 2020, Topaz achieved the following:

- Generated total revenue and other income[(1)] of $26.4 million and $69.2 million for the three and nine months ended September 30, 2020, respectively;

- Generated EBITDA[(2)] of $23.9 million and $62.2 million, realizing an EBITDA margin[(2)] of 91% and 90%, for the three and nine months ended September 30, 2020, respectively;

- Paid dividends of $18.6 million ($0.20 per share) and $50.6 million ($0.60 per share), representing a payout ratio[(2)] of 78% and 82%, for the three and nine months ended September 30, 2020, respectively;

- On November 10, 2020, Topaz's Board declared its fourth quarter dividend of $0.20 per share which is expected to be paid on December 31, 2020 to shareholders of record on December 15, 2020;

- On June 29, 2020 and July 6, 2020, Topaz completed a private placement consisting of 13.2 million Common Shares for gross proceeds of $145.3 million;

- Topaz ended the third quarter of 2020 with adjusted working capital[(2)] of $23.9 million and $7.0 million drawn on its $125.0 million credit facility. At November 10, 2020, the Company had no borrowings outstanding under its credit facility;

- Completed $153.5 million of acquisitions during the third quarter of 2020 including an infrastructure acquisition from an arm's length third party on July 2, 2020 for $100.0 million; an infrastructure acquisition with Tourmaline on September 1, 2020 for $52.5 million; and acquisition of a newly created gross overriding royalty interest on undeveloped land from an arm's length third party on September 1, 2020 whereby a portion of the consideration is held in escrow subject to the fulfillment of a two-well drilling commitment by the vendor;

- On October 26, 2020, Topaz completed its initial public offering and its Common Shares now trade on the Toronto Stock Exchange under the symbol "TPZ". The offering consisted of a treasury offering by the Company and a secondary offering by its majority shareholder, Tourmaline, of an aggregate of 17.7 million Common Shares for gross proceeds to the Company and Tourmaline of approximately $217.5 million and $13.0 million, respectively. On November 9, 2020, the underwriters exercised the over-allotment option in full, and purchased 2.5 million Common Shares at $13.00 per share (the "Over-Allotment Option), for gross proceeds to the Company of $32.6 million;

- On November 4, 2020, Topaz entered into the previously announced definitive agreement with Tourmaline for the purchase of additional royalty assets (the "Royalty Acquisition"). Pursuant to the Royalty Acquisition, Topaz will acquire a newly created 2% gross overriding royalty interest on natural gas production until December 31, 2021; with a 3% gross overriding royalty interest on natural gas thereafter, and a 2.5% gross overriding royalty interest on crude oil and condensate production from 720,000 gross acres of developed and undeveloped lands to be acquired by Tourmaline in the Alberta Deep Basin ("Deep Basin"), which is contiguous with Topaz's existing Deep Basin royalty interest acreage, for total cash consideration of $130.0 million. Topaz will fund the Royalty Acquisition from its available cash on hand. The Royalty Acquisition is expected to close on January 1, 2021, subject to satisfaction of customary closing conditions including Tourmaline completing a corporate acquisition it announced on November 4, 2020. Topaz estimates that, based on Tourmaline's estimated capital plan attributable to the Royalty Acquisition lands, the Royalty Acquisition will provide royalty production growth of 12% in 2021, and 24% in 2022. Topaz estimates that, based on current forward commodity prices and Tourmaline's estimated capital plan attributable to the Royalty Acquisition lands, the Royalty Acquisition is expected to generate royalty production revenue of approximately $9.3 million and $13.0 million in 2021 and 2022, respectively, and free cash flow growth on a per share basis, of over 7% and 12% in 2021 and 2022, respectively. The Royalty Acquisition enhances Topaz's future growth outlook and is consistent with its strategy to acquire value-enhancing assets that are accretive on a per share basis;

(1) Comprised of royalty production revenue, processing revenue and other income.
(2) Refer to "Non-GAAP Financial Measures".

## SELECTED FINANCIAL INFORMATION FROM CONTINUING OPERATIONS[1]

| For the periods ended<br>($000s) except per share | Sept. 30, 2020<br>Nine months | Sept. 30, 2020<br>Three months | Jun. 30, 2020<br>Three months | Mar. 31, 2020<br>Three months | Nov. 14-<br>Dec. 31 2019[1] |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Royalty production revenue | 41,275 | 14,826 | 11,935 | 14,514 | 9,832 |
| Processing revenue | 20,452 | 9,188 | 5,296 | 5,968 | 2,943 |
| Other income[5] | 7,450 | 2,384 | 2,789 | 2,277 | 1,408 |
| **Total** | **69,177** | **26,398** | **20,020** | **22,759** | **14,183** |
| Cash expenses: | | | | | |
| Operating | (2,562) | (691) | (1,016) | (855) | (481) |
| Marketing | (413) | (201) | (122) | (90) | (98) |
| General and administrative | (3,273) | (1,030) | (1,249) | (994) | (1,331) |
| Realized loss on financial instruments | (694) | (506) | (188) | — | — |
| Interest expense | (136) | (76) | (60) | — | — |
| **Cash flow[2]** | **62,099** | **23,894** | **17,385** | **20,820** | **12,273** |
| Per share[3] | $0.73 | $0.26 | $0.22 | $0.26 | $0.15 |
| Cash from (used in) operating activities | 50,755 | 12,571 | 24,234 | 13,950 | (350) |
| Per share[3] | $0.60 | $0.13 | $0.30 | $0.17 | $(0.004) |
| Net income (loss) | (5,294) | (2,935) | (1,125) | (1,234) | 653 |
| Per basic and diluted share[3] | $(0.06) | $(0.03) | $(0.01) | $(0.02) | $0.01 |
| EBITDA[2] | 62,187 | 23,922 | 17,445 | 20,820 | 12,273 |
| EBITDA margin[2] | 90% | 91% | 87% | 91% | 87% |
| Dividends paid | 50,642 | 18,642 | 16,000 | 16,000 | — |
| Per share[3] | $0.60 | $0.20 | $0.20 | $0.20 | — |
| Payout ratio[2] | 82% | 78% | 92% | 77% | — |
| Weighted average shares outstanding[4] | 84,493 | 93,126 | 80,257 | 80,000 | 80,000 |
| Capital expenditures | 784 | 513 | 159 | 112 | 2 |
| Acquisitions | 153,500 | 153,500 | — | — | — |
| **Average Royalty Production** | | | | | |
| Natural gas (mcf/d) | 56,040 | 55,400 | 55,056 | 57,672 | 58,131 |
| Oil and condensate (bbl/d) | 739 | 737 | 715 | 766 | 766 |
| **Total (boe/d)** | 10,079 | 9,970 | 9,891 | 10,378 | 10,455 |
| **Realized Royalty Production Prices** | | | | | |
| Natural gas ($/mcf) | $2.10 | $2.26 | $2.00 | $2.05 | $2.56 |
| Oil ($/bbl) | $39.81 | $48.66 | $26.14 | $46.35 | $66.15 |
| Condensate ($/bbl) | $46.02 | $49.27 | $30.61 | $56.35 | $76.30 |
| **Benchmark Pricing** | | | | | |
| Natural Gas | | | | | |
| AECO 5A *(CAD$/mcf)* | $2.10 | $2.25 | $2.00 | $2.04 | $2.49 |
| Oil and condensate | | | | | |
| NYMEX WTI *(USD$/bbl)* | $38.21 | $40.92 | $28.00 | $46.17 | $56.87 |
| Edmonton Par *(CAD$/bbl)* | $43.66 | $49.06 | $30.24 | $51.89 | $66.70 |
| Edmonton Condensate *(CAD$/bbl)* | $47.64 | $51.71 | $31.74 | $66.45 | $74.77 |
| CAD$/USD$ | $0.7393 | $0.7507 | $0.7220 | $0.7443 | $0.7577 |

| ($000s) | At Sept. 30, 2020 | At Jun. 30, 2020 | At Mar. 31, 2020 | At Dec. 31, 2019 |
|---|---|---|---|---|
| Total assets | 794,787 | 793,323 | 679,858 | 697,234 |
| Working capital | 21,844 | 148,745 | 25,620 | 20,767 |
| Adjusted working capital[2] | 23,917 | 149,180 | 25,475 | 20,767 |
| Net debt (cash)[2] | 17,082 | 149,180 | 25,475 | 20,767 |
| Common shares outstanding | 93,208 | 91,690 | 80,000 | 80,000 |

(1) Financial results from continuing operations. Refer to “Discontinued Operations”.
(2) Refer to “Non-GAAP Financial Measures”.
(3) Calculated using the weighted average shares outstanding.
(4) (000) shares
(5) Includes interest income of $0.05 million for the three and nine months ended September 30, 2020.

## Results of Continuing Operations

Topaz's current business was established in November 2019 with the acquisition of the Initial Assets. The Company's results of continuing operations from January 1, 2020 to September 30, 2020 are presented and discussed below. Results from discontinued operations have been excluded. Please refer to the "Discontinued Operations" section of this MD&A and the Financial Statements.

### Cash from (used in) Operating Activities, Cash Flow, EBITDA and Net Loss from Continuing Operations

During the three and nine months ended September 30, 2020, Topaz generated $12.6 million and $50.8 million, respectively, of cash from operating activities. Cash flow[(1)] for the same periods was $23.9 million and $62.1 million, respectively. The Company generated EBITDA[(1)] of $23.9 million and $62.2 million, realizing an EBITDA margin of 91% and 90%, for the three and nine months ended September 30, 2020, respectively. The Company had a net loss from continuing operations, for the three and nine months ended September 30, 2020, of $2.9 million and $5.3 million, respectively, which was primarily attributable to non-cash depletion charges of $21.0 million and $62.8 million, respectively, in addition to non-cash unrealized losses on financial instruments. The unrealized loss on financial instruments are due to changes in forward commodity prices at September 30, 2020.

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

| ($000s) except per share amounts | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---|---|
| Cash from operating activities | 12,571 | 50,755 |
| Per share[(2)] | $0.13 | $0.60 |
| Cash flow[(1)] | 23,894 | 62,099 |
| Per share[(2)] | $0.26 | $0.73 |
| EBITDA[(1)] | 23,922 | 62,187 |
| EBITDA margin[(1)] | 91% | 90% |
| Net loss | (2,935) | (5,294) |
| Per basic and diluted share[(2)] | $(0.03) | $(0.06) |

(1) Refer to "Non-GAAP Financial Measures".
(2) Calculated using the weighted average shares outstanding.

### Revenue

***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, oil and condensate are based on market index prices in the month of production. The royalty production volumes are currently marketed with the royalty payor's volume and revenue is generally received two months after the natural gas, oil and condensate are produced. The Company can elect to take its share of the royalty production volume in kind, if desired.

***Processing revenue***

The Company's processing revenue is generated through its non-operated ownership in processing facilities. The facilities provide natural gas processing services to customers on a fee-for-service basis. Certain fees include fixed take-or-pay arrangements under long-term commercial arrangements.

***Other income***

The Company generates income by way of a contracted interest in third party revenue generated through fee-for-service natural gas processing contracts with no underlying facility ownership.

During the three and nine months ended September 30, 2020, Topaz generated revenue and other income of $26.4 million and $69.2 million, respectively, as presented in the table below:

| ($000s) | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---|---|
| Royalty production revenue | 14,826 | 41,275 |
| Processing revenue | 9,188 | 20,452 |
| Other income[(1)] | 2,384 | 7,450 |
| **Total** | **26,398** | **69,177** |

(1) Includes interest income of $0.05 million for the three and nine months ended September 30, 2020.

## Royalty Production

Topaz's average royalty production for the three and nine months ended September 30, 2020 was 9,970 boe/d and 10,079 boe/d, respectively. The Company has gross overriding royalty interests on approximately 2.3 million gross acres of developed and undeveloped lands from which the Company receives royalty production revenue based on the associated natural gas, crude oil and condensate production. The royalties are paid based on market indexed pricing in the month of production. Topaz earns royalty revenue on existing production and may generate royalty revenue on future development of the royalty lands. Topaz's royalty interest production is currently marketed with the royalty payor's production. As Topaz has no operational control over its royalty assets, the Company uses historical production information and market pricing to estimate revenue accruals. These accrual estimates are revised based on the receipt of actual production results and realized prices. This may result in fluctuations in future reported production volumes.

| | **Three months ended September 30, 2020** | **Nine months ended September 30, 2020** |
|---|---|---|
| **Average Royalty Production** | | |
| Natural gas (mcf/d) | 55,400 | 56,040 |
| Oil and condensate (bbl/d) | 737 | 739 |
| **Total (boe/d)** | **9,970** | **10,079** |
| **Realized Royalty Production Prices** | | |
| Natural gas ($/mcf) | $2.26 | $2.10 |
| Oil (C$/bbl) | $48.66 | $39.81 |
| Condensate (C$/bbl) | $49.27 | $46.02 |
| **Benchmark Pricing** | | |
| Natural Gas | | |
| AECO 5A *(CAD$/mcf)* | $2.25 | $2.10 |
| Oil and condensate | | |
| NYMEX WTI *(USD$/bbl)* | $40.92 | $38.21 |
| Edmonton Par *(CAD$/bbl)* | $49.06 | $43.66 |
| Edmonton Condensate *(CAD$/bbl)* | $51.71 | $47.64 |
| CAD$/USD$ | $0.7507 | $0.7393 |

## Operating Expenses

Topaz incurs operating expenses attributed to its jointly owned non-operated ownership of processing facilities. During the three and nine months ended September 30, 2020, Topaz incurred $0.7 million and $2.6 million, respectively, of operating expenses.

| ($000s) | **Three months ended September 30, 2020** | **Nine months ended September 30, 2020** |
|---|---|---|
| Operating expenses | 691 | 2,562 |

## Marketing Expenses

Topaz pays a marketing fee to Tourmaline as the Company's royalty production is marketed with the royalty payor's production. During the three and nine months ended September 30, 2020, Topaz incurred $0.2 million and $0.4 million, respectively, of marketing expense.

| ($000s) | **Three months ended September 30, 2020** | **Nine months ended September 30, 2020** |
|---|---|---|
| Marketing expenses | 201 | 413 |

## General & Administrative Expenses

Topaz incurs general & administrative ("G&A") expenses which includes a management and administrative services fee payable to Tourmaline, as Topaz agreed to share administrative services during its first year of operations. The fee is being reduced on a quarterly basis through 2020 as the Company adds its own personnel and administrative functions; reducing the need for administrative services provided from Tourmaline. The agreement is currently scheduled to be terminated January 1, 2021. Topaz incurs professional services and other directly incurred administrative expenses. During the three and nine months ended September 30, 2020, Topaz incurred total G&A expenses of $1.0 million and $3.3 million, respectively, which includes management fees of $0.3 million and $1.4 million, respectively.

| ($000s) | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---|---|
| Management contract expenses | 312 | 1,406 |
| Administrative and professional services | 718 | 1,867 |
| General & Administrative expenses | 1,030 | 3,273 |

### Share-Based Compensation

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. At September 30, 2020, 2.05 million stock options were outstanding. During the three and nine months ended September 30, 2020, Topaz recognized $0.3 million and $0.6 million, respectively, of stock-based compensation expense.

| ($000s) | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---|---|
| Share based compensation | 287 | 640 |

### Finance Expenses

Topaz incurs finance expenses which includes interest expense on its bank debt (including standby interest charges) and accretion attributed to its decommissioning obligations. The Company recognized decommissioning obligations attributed to its jointly-owned non-operated processing facilities and recognizes accretion expense accordingly. During the three and nine months ended September 30, 2020, Topaz had average bank debt outstanding of $0.4 million and $0.1 million, respectively, which incurred interest expense and Topaz paid standby interest charges on the undrawn credit facility.

| ($000s) | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---|---|
| Accretion | 3 | 7 |
| Interest expense | 76 | 136 |
| Finance expenses | 79 | 143 |

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

Topaz records DD&A expense as follows; its royalty assets are depleted on a unit-of-production basis by reference to the ratio of: royalty production in the period to total developed reserves; and its processing facilities are depreciated on a straight-line basis over the assets’ estimated useful lives. Topaz recognized DD&A expense of $21.0 million and $62.8 million during the three and nine months ended September 30, 2020, respectively.

| ($000s) | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---|---|
| Depletion, Depreciation & Amortization | 21,028 | 62,833 |

### Deferred Income Tax Expense

For the three and nine months ended September 30, 2020, the provision for deferred income tax expense was $3.6 million and $1.5 million, respectively. The deferred income tax expense for the three months ended September 30, 2020 is primarily attributed to the reduction of certain tax assets due to the September 1, 2020 infrastructure acquisition from Tourmaline. For the nine months ended September 30, 2020 the deferred income tax expense was partially offset by the recognition of previously unrecognized tax assets which are attributed to the tax pools Topaz retained from Exshaw.

| ($000s) | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---|---|
| Deferred income tax expense | 3,623 | 1,473 |

## Corporate Structure

### Common Control Transaction

Topaz's current business was established in November 2019 with the acquisition of the Initial Assets. Immediately prior to closing the Initial Acquisition, Topaz was a subsidiary controlled by Tourmaline and consequently was under common control at the time of the Initial Acquisition. Management used the book value method to determine the value of assets and liabilities acquired by the Company. As a result of the common control transaction, the Company recorded net assets acquired in the amount of $637.0 million in exchange for cash to Tourmaline of $194.5 million and Common Shares with an assigned value of $442.5 million (58.0 million Common Shares).

| ($000s) | |
|---|---|
| Book value of assets and liabilities acquired: | |
| Petroleum and natural gas interests | 582,265 |
| Property, plant & equipment | 55,362 |
| Decommissioning obligations | (627) |
| **Total** | **637,000** |
| Consideration: | |
| Cash | 194,505 |
| Common shares | 442,495 |
| **Total** | **637,000** |

On November 14, 2019, Topaz closed an equity financing for total cash consideration of $203.5 million (net of share issue costs and taxes) which resulted in Tourmaline's ownership interest being reduced from 100% to 73.9%.

On June 29, 2020 and July 6, 2020, Topaz completed a private placement consisting of 13.2 million Common Shares for gross proceeds of $145.3 million which resulted in Tourmaline's ownership interest being reduced from 73.9% to 63.5%.

### Discontinued Operations

Exshaw was incorporated under the Business Corporations Act (Alberta) in 2006 and was a controlled subsidiary of Tourmaline prior to the transactions leading up to the Initial Acquisition. Prior to the Initial Acquisition, all of Exshaw's oil and gas assets and liabilities, except for $48.1 million of deferred tax assets and $1.0 million in cash, were transferred to Tourmaline. The book value method was used to determine the value of assets and liabilities transferred. The accumulated deficit in Exshaw was then reclassified to share capital and contributed surplus balances in shareholder's equity for the continuing entity, upon receipt of shareholder approval. On November 8, 2019, articles of amendment were filed to change the Company's name to "Topaz Energy Corp." Prior to the E&P Asset Disposition, the Company conducted upstream petroleum and natural gas exploration and production operations and the results of these operations are reflected as discontinued operations.

| ($000s) | |
|---|---|
| Book value of assets and liabilities transferred: | |
| Intercompany receivable | (4,245) |
| Other current assets | (7,456) |
| Accounts payable | 6,496 |
| Bank debt | 290,206 |
| Petroleum and natural gas interests | (776,606) |
| Decommissioning obligations | 38,812 |
| Future income tax liability | 104,257 |
| Retained earnings | 348,536 |
| **Total** | **—** |

The following table presents the results of discontinued operations of Exshaw.

| **For the period ended** | **September 30, 2019** | |
|---|---|---|
| ($000s, except for share information) | **Three months** | **Nine months** |
| **Revenue** | | |
| Revenue | 21,889 | 66,757 |
| Other income | 656 | 2,438 |
| **Total** | **22,545** | **69,195** |
| Expenses | | |
| Royalties | 2,043 | 4,691 |
| Operating | 6,654 | 23,270 |
| Transportation expenses | 3,828 | 11,212 |
| General and administrative | 300 | 900 |
| Finance | 2,733 | 8,117 |
| Depletion and depreciation | 8,027 | 23,322 |
| Total expenses | 23,585 | 71,512 |
| **Net loss from discontinued operations before taxes** | (1,040) | (2,317) |
| Deferred tax recovery | (232) | (10,487) |
| **Net income (loss) from discontinued operations** | **(808)** | **8,170** |
| Per share(1) | **$(0.73)** | **$7.43** |

(1) Exshaw completed a share consolidation which reduced the outstanding number of shares to 1.1 million. The per share calculation for the periods above reflect the post consolidation number of shares outstanding (1.1 million).

The following table presents the sources and uses of cash from the discontinued operations of Exshaw.

| **For the period ended** | **September 30, 2019** | |
|---|---|---|
| ($000s) | **Three months** | **Nine months** |
| Operating activities | (12,375) | 4,580 |
| Financing activities | 54,960 | 49,953 |
| Investing activities | (42,585) | (54,533) |

## Liquidity and Capital Resources

### Bank Debt

Topaz has a covenant-based, secured, operating credit facility with a Canadian chartered bank ("Credit Facility") with an initial maturity date of June 10, 2022. In September 2020, Topaz increased the credit facility to $125.0 million. With the exception of the change in amount the credit facility was renewed under the same terms and conditions as those described in note 10 of the Company's financial statements as at June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and 2019, and for the year ended December 31, 2019. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis.

At September 30, 2020, the Company had $7.0 million drawn against the credit facility ($6.8 million net of debt issue costs) (December 31, 2019 - nil).

### Dividends

For the three and nine months ended September 30, 2020, the Company has paid $18.6 million ($0.20 per Common Share) and $50.6 million ($0.60 per Common Share), respectively, in dividends to its shareholders. No dividends were paid in 2019.

### Shares Outstanding

At September 30, 2020, Topaz had 93.2 million Common Shares and 2.05 million stock options outstanding. As at November 10, 2020, Topaz had 112.4 million Common Shares and 2.05 million stock options 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, natural gas, crude oil, and condensate prices, third party facility utilization, operating and marketing expense, administrative expenses, taxes and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, royalty interest production expectations, third party facility utilization expectations and other factors that, in the Company's view, could impact cash from operating activities. At September 30, 2020, the Company had working capital (excluding financial instruments) of $23.9 million (December 31, 2019 - $20.8 million), in addition to an undrawn $118.0 million on its 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 accounts receivable at September 30, 2020 relate to royalty and contractual agreements with its controlling shareholder. The Company's hybrid structure of royalty and infrastructure revenue from a counterparty, which Topaz considers to have strong creditworthiness, significantly reduces Topaz's credit risk. At September 30, 2020, the Company does not have any receivable (December 31, 2019 - $nil) over 90 days. The Company is satisfied its accounts receivable amounts are collectible.

The carrying amount of cash and cash equivalents, accounts receivable and financial instruments represents the Company's maximum credit exposure. The Company has not recorded an expected credit loss as at September 30, 2020 (December 31, 2019 – nil) nor was it required to write-off any receivables during the three or nine months ended September 30, 2020 (December 31, 2019 – nil). At September 30, 2020 the Company's receivables consisted of $16.3 million due from its controlling shareholder Tourmaline, $7.8 million due from federal tax authorities related to goods & services tax paid on recent acquisitions and $1.0 million from a partner in a jointly-owned infrastructure asset. At December 31, 2019 all receivables were due from the Company's controlling shareholder, Tourmaline.

**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. The Company has unused capacity under its available credit facilities, described in note 8 to the Company's interim condensed financial statements as at and for the three and nine months ended September 30, 2020, for up to $118.0 million as at September 30, 2020.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of $1.6 million is less than one year. The Company expects to pay suppliers within 30-60 days. These terms are consistent with industry practice. As at September 30, 2020, all of the accounts payable balances were less than 90 days. Management maintains a conservative approach to debt management that aims to provide financial flexibility with respect to funding acquisition growth and the payment of dividends to shareholders. The Board 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 September 30, 2020:

| ($000s) | **Total** | **< 1 year** | **1 to 5 years** |
|---|---|---|---|
| Non-derivative financial liabilities: | | | |
| Accounts payable and accrued liabilities | 1,563 | 1,563 | – |
| Bank debt | 6,835 | – | 6,835 |
| Derivative financial liabilities: | | | |
| Financial instruments | 2,440 | 2,073 | 367 |

**Market risk**

Market risk is the risk that changes in market conditions, such as commodity prices 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 derivatives 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 has $7.0 million outstanding borrowings ($6.8 million net of debt issue costs) against its credit facility at September 30, 2020 (December 31, 2019 – nil).

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 world economic events that dictate the levels of supply and demand. During the three and nine months ended September 30, 2020, the Company entered into certain financial derivative contracts in order to manage commodity 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 such financial commodity contracts are recorded on the statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the statement of net income (loss) and comprehensive income (loss). The Company has not offset any financial assets and liabilities, in the statements of financial position.

**Financial Instruments**

The Company utilizes financial derivative contracts as a risk management technique to mitigate exposure to commodity price volatility. The following table presents the financial derivative contracts outstanding as at September 30, 2020. The fair value of these contracts is a liability of $2.4 million as detailed below.

| **Natural Gas Contract Period** | **Type** | **Daily Volume** | **AECO 5A Price (CAD$/GJ)** |
|---|---|---|---|
| Oct. 1, 2020 to Oct. 31, 2020 | Fixed price | 5,000 GJ | $1.73/GJ |
| Oct. 1, 2020 to Oct. 31, 2020 | Fixed price | 2,500 GJ | $1.75/GJ |
| Oct. 1, 2020 to Dec. 31, 2020 | Fixed price | 5,000 GJ | $1.73/GJ |
| Oct. 1, 2020 to Dec. 31, 2020 | Fixed price | 2,500 GJ | $1.72/GJ |
| Oct. 1, 2020 to Mar. 31, 2021 | Fixed price | 2,500 GJ | $2.25/GJ |
| Jan. 1, 2021 to Dec. 31, 2021 | Fixed price | 5,000 GJ | $2.09/GJ |
| Apr. 1, 2021 to Oct. 31, 2021 | Fixed price | 2,500 GJ | $2.04/GJ |
| Apr. 1, 2021 to Oct. 31, 2021 | Fixed price | 2,500 GJ | $2.035/GJ |
| Apr. 1, 2021 to Oct 31, 2021 | Fixed price | 2,500 GJ | $2.54/GJ |

The following table presents any financial derivative contracts entered subsequent to September 30, 2020.

| **Natural Gas Contract Period** | **Type** | **Daily Volume** | **AECO 5APrice (CAD$/GJ)** |
|---|---|---|---|
| Nov. 1, 2020 to Nov. 30, 2020 | Fixed price | 10,000 GJ | $2.68/GJ |

| ($000s) | **At September 30, 2020** **Asset** | **Liability** |
|---|---|---|
| Current financial instruments | – | 2,073 |
| Non-current financial instruments | – | 367 |

The following table provides the realized and unrealized losses on financial instruments for the periods presented. During the three and nine months ended September 30, 2020, the Company realized a $0.5 million and $0.7 million loss on financial instruments and during the same periods, recorded an unrealized loss on financial instruments of $1.9 million and $2.4 million.

| ($000s) | **Three months ended September 30, 2020** | **Nine months ended September 30, 2020** |
|---|---|---|
| Realized loss on financial instruments | 506 | 694 |
| Unrealized loss on financial instruments | 1,888 | 2,440 |
| **Total** | **2,394** | **3,134** |

The Company's financial derivative contracts are sensitive to fluctuations in commodity prices. For the contracts in place at September 30, 2020, if the future strip prices for natural gas were $0.10 per mcf higher, with all other variables held constant, the unrealized loss would increase by $0.7 million, directly impacting earnings (December 31, 2019 - $nil as there were no financial derivative contracts outstanding). An equal and opposite impact would have occurred if natural gas prices were $0.10 per mcf lower.

## Capital Expenditures

During the three and nine months ended September 30, 2020, Topaz incurred capital expenditures of $0.5 million and $0.8 million, respectively, related to its natural gas processing facilities.

On July 2, 2020, Topaz acquired a 12.5% working interest in a natural gas processing facility for $100.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approx. $100.4 million and the assumption of $0.4 million in decommissioning liabilities. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in acquired assets being accounted for as an asset acquisition.

On September 1, 2020, Topaz acquired a 25% working interest in a natural gas processing facility from Tourmaline for $52.5 million, before customary closing adjustments. At the time of the acquisition Topaz was a subsidiary controlled by Tourmaline and consequently was under common control at the time of the acquisition. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition. The acquisition resulted in an increase in PP&E of approx. $52.8 million and the assumption of $0.3 million in decommissioning obligations.

On September 1, 2020, Topaz acquired a newly created gross overriding royalty interest on approximately 76,800 gross acres of undeveloped land in the Clearwater area of Alberta for total consideration of $3.0 million. At September 30, 2020, $2.0 million was held in escrow and is subject to fulfillment of a contractual two-well drilling commitment.

| ($000s) | Three months ended September 30, 2020 | Nine months ended September 30, 2020 |
|---|---|---|
| Capital expenditures | 513 | 784 |
| Acquisitions | 153,500 | 153,500 |
| **Total** | **154,013** | **154,284** |

## Commitments and Contractual Obligations

At September 30, 2020, Topaz does not have any material commitments or contractual obligations.

## Off Balance Sheet Arrangements

At September 30, 2020, 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

In conjunction with the Initial Acquisition and in connection with a subsequent acquisition, Topaz entered into a number of agreements with Tourmaline including a royalty, facilities and revenue interest sale agreement, gross overriding royalty agreement, Topaz TPF revenue interest agreement, agreement for the construction, ownership and operation of the Brazeau Gas Plant Complex, agreement for the construction, ownership and operation of the Musreau Gas Plant Complex and agreement for the construction, ownership and operation of the Banshee Gas Plant Complex. A significant portion of Topaz's royalty production revenue, processing revenue and other income as described in this MD&A are derived from such agreements. Topaz also entered into an agreement with Tourmaline in connection with the E&P Asset Disposition. See "Business Overview," "Revenue," "Royalty Production" and "Marketing Expenses" above.

In conjunction with the Initial Acquisition, Topaz entered into a management services agreement with Tourmaline pursuant to which Tourmaline provides certain management and administrative services required by the Company. During the three and nine months ended September 30, 2020 Topaz paid $0.3 million and $1.4 million, respectively, in respect of this agreement which were in the normal course of operations and were measured at the exchange amount. Services provided and associated fees under the management and administrative services agreement are being reduced on a quarterly basis through 2020 as the Company adds its own personnel and administrative functions. The agreement is currently scheduled to be terminated January 1, 2021. See “General & Administrative Expenses” above.

Also in conjunction with the Initial Acquisition, Topaz entered into a governance agreement and an investor liquidity agreement with Tourmaline.

The full text of the above noted agreements are available on SEDAR at www.sedar.com under the Company’s profile.

## Subsequent Events

On October 26, 2020, Topaz completed its initial public offering consisting of a treasury offering by the Company and a secondary offering by its majority shareholder, Tourmaline, of an aggregate of 17.7 million Common Shares at a price of $13.00 per Common Share for gross proceeds to the Company and Tourmaline of approximately $217.5 million and $13.0 million, respectively. On November 9, 2020, the underwriters exercised the over-allotment option in full, and purchased 2.5 million Common Shares at $13.00 per share (the “Over-Allotment Option), for gross proceeds to the Company of $32.6 million. The Common Shares trade on the Toronto Stock Exchange under the symbol "TPZ".

On November 4, 2020, Topaz entered into an agreement with Tourmaline to acquire a newly created gross overriding royalty interest on natural gas, crude oil, and condensate production on over 720,000 gross acres of developed and undeveloped lands in the Deep Basin area of Alberta (“Deep Basin”) which is contiguous with Topaz’s existing Deep Basin royalty interest acreage, for total consideration of $130.0 million (the “Acquisition”). The Acquisition is subject to satisfaction of customary closing conditions including Tourmaline completing a corporate acquisition it announced on November 4, 2020. The Acquisition is expected to close on January 1, 2021.

On November 10, 2020 Topaz’s Board declared its fourth quarter dividend of $0.20 per share which is expected to be paid on December 31, 2020 to shareholders of record on December 15, 2020.

## 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 financial statements is discussed in the Financial Statements.

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

In accordance with Item 5.3 of National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings (“NI 52-109”), the Company has filed an interim certificate in the Form 52-109F1 - IPO/RTO relating to its annual information form, annual financial statements and the accompanying notes and the MD&A for the year ended June 30, 2020 because it is the first financial year that has ended after the Company became a reporting issuer.

In particular, the certifying officers filing the certificate in the Form 52-109F2 - IPO/RTO required under NI 52-109 are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company’s IFRS.

## Non-GAAP Financial Measures

This MD&A makes reference to the terms “cash flow,” “EBITDA,” “EBITDA margin,” “payout ratio,” “working capital,” “adjusted working capital,” and “net debt (cash),” which are not recognized measures under GAAP, and 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. Management uses the terms “cash flow,” “EBITDA,” “EBITDA margin,” “payout ratio,” “working capital,” “adjusted working capital,” and “net debt (cash)” for its own performance measures and to provide shareholders and potential investors with a measurement of the Company’s efficiency and its ability to generate the cash necessary to fund dividends and a portion of its future growth expenditures or to repay debt. Accordingly, investors are cautioned that the non-GAAP financial measures should not be considered in isolation nor as an alternative to net income (loss) from continuing operations or other financial information determined in accordance with GAAP as an indication of the Company’s performance.

For these purposes, "cash flow" is defined as cash from (used in) operations before changes in non-cash working capital. “EBITDA” is net income or loss from continuing operations, excluding extraordinary items, plus interest expense, income taxes and the capital portion of any finance lease received, and adjusted for non-cash items including depletion and depreciation and share-based compensation and gains or losses on dispositions. “EBITDA margin” is defined as EBITDA divided by total revenue and other income (expressed as a percentage of total revenue and other income). “Payout ratio” is dividends paid expressed as a percentage of cash flow. “Working capital” is current assets less current liabilities. “Adjusted working capital” is current assets less current liabilities, adjusted for financial instruments and “net debt (cash)” is total debt outstanding less adjusted working capital.

### Discontinued Operations

Results from discontinued operations have not been included in the tables below. Please refer to the “Discontinued Operations” section of this MD&A and the Financial Statements.

### Cash Flow

A summary of the reconciliation of cash from operating activities (per the statements of cash flow) to cash flow, is set forth below:

| ($000s) | Three months ended Sept. 30, 2020 | Nine months ended Sept. 30, 2020 |
|---|---|---|
| Cash from operating activities from continuing operations | 12,571 | 50,755 |
| Exclude change in non-cash working capital | 11,323 | 11,344 |
| **Cash flow** | **23,894** | **62,099** |

### EBITDA

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

| ($000s) | Three months ended Sept. 30, 2020 | Nine months ended Sept. 30, 2020 |
|---|---|---|
| Net loss | (2,935) | (5,294) |
| Unrealized loss on financial instruments | 1,888 | 2,440 |
| Share-based compensation | 287 | 640 |
| Finance expense | 79 | 143 |
| Depletion and depreciation | 21,028 | 62,833 |
| Deferred income tax expense | 3,623 | 1,473 |
| Less: interest income | (48) | (48) |
| **EBITDA** | **23,922** | **62,187** |
| | | |
| Total revenue and other income | 26,398 | 69,177 |
| **EBITDA margin (% of total revenue and other income)** | **91%** | **90%** |

## Payout Ratio

A summary of the calculation of payout ratio, is set forth below:

| ($000s) | **Three months ended Sept. 30, 2020** | **Nine months ended Sept. 30, 2020** |
|---|---|---|
| Dividends paid | 18,642 | 50,642 |
| Cash flow | 23,894 | 62,099 |
| **Payout ratio (% of cash flow)** | **78%** | **82%** |

## Adjusted Working Capital

A summary of the reconciliation of working capital to adjusted working capital is set forth below:

| ($000s) | **At Sept. 30, 2020** | **At Dec. 31, 2019** |
|---|---|---|
| Working capital | 21,844 | 20,767 |
| Exclude financial instruments-current (asset) liability | 2,073 | — |
| **Adjusted working capital** | **23,917** | **20,767** |

## Net debt (cash)

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

| ($000s) | **At Sept. 30, 2020** | **At Dec. 31, 2019** |
|---|---|---|
| Adjusted working capital | 23,917 | 20,767 |
| Less: bank debt | (6,835) | — |
| **Net debt (cash)** | **17,082** | **20,767** |

## SELECTED QUARTERLY INFORMATION FROM CONTINUING OPERATIONS

| ($000s) except per share | Three months ended Sept. 30, 2020 | Three months ended Jun. 30, 2020 | Three months ended Mar. 31, 2020 | Nov. 14, 2019 to Dec. 31, 2019 |
|---|---|---|---|---|
| Revenue: | | | | |
| Royalty production revenue | 14,826 | 11,935 | 14,514 | 9,832 |
| Processing revenue | 9,188 | 5,296 | 5,968 | 2,943 |
| Other income | 2,384 | 2,789 | 2,277 | 1,408 |
| **Total** | **26,398** | **20,020** | **22,759** | **14,183** |
| Cash expenses: | | | | |
| Operating | (691) | (1,016) | (855) | (481) |
| Marketing | (201) | (122) | (90) | (98) |
| General and administrative | (1,030) | (1,249) | (994) | (1,331) |
| Realized loss on financial instruments | (506) | (188) | — | — |
| Interest expense | (76) | (60) | — | — |
| **Cash flow[1]** | **23,894** | **17,385** | **20,820** | **12,273** |
| Per share | $0.26 | $0.22 | $0.26 | $0.15 |
| Cash from (used in) operating activities | 12,571 | 24,234 | 13,950 | (350) |
| Per share[2] | $0.13 | $0.30 | $0.17 | $(0.004) |
| Net income (loss) | (2,935) | (1,125) | (1,234) | 653 |
| Per basic and diluted share[2] | $(0.03) | $(0.01) | $(0.02) | $0.01 |
| Dividends paid | 18,642 | 16,000 | 16,000 | — |
| Per share[2] | $0.20 | $0.20 | $0.20 | — |
| Capital expenditures | 513 | 159 | 112 | 2 |
| Acquisitions | 153,500 | — | — | — |
| Weighted average shares outstanding (000) | 93,126 | 80,257 | 80,000 | 80,000 |

| ($000s) | At Sept. 30, 2020 | At June 30, 2020 | At Mar. 31, 2020 | At Dec. 31, 2019 |
|---|---|---|---|---|
| Total assets | 794,787 | 793,323 | 679,858 | 697,234 |
| Working capital | 21,844 | 148,745 | 25,620 | 20,767 |
| Adjusted working capital[1] | 23,917 | 149,180 | 25,475 | 20,767 |
| Net debt (cash)[1] | 17,082 | 149,180 | 25,475 | 20,767 |
| Common shares outstanding[3] | 93,208 | 91,690 | 80,000 | 80,000 |

(1) Refer to "Non-GAAP Financial Measures".
(2) Calculated using the weighted average shares outstanding.
(3) (000) shares

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 continuing operations on November 14, 2019 in connection with the Initial Acquisition. As discussed in "Discontinued Operations," Exshaw's E&P assets were transferred to Tourmaline on November 8, 2019 and those operations have been presented as discontinued operations. During Topaz's first period of operation, its royalty production averaged 10,455 boe/d which declined by 5% to average quarterly royalty production of 9,970 boe/d during the third quarter of 2020. Similarly, Topaz's average royalty production for the nine months ended September 30, 2020 of 10,079 boe/d was 4% lower than the average production during the period ended December 31, 2019. The production declines are attributed to reduced development activity by the Company's royalty payor due to seasonality restricting certain capital activity. Topaz's cash flow of $23.9 million during the third quarter of 2020 was 95% higher than the $12.3 million of cash flow generated during the period ended December 31, 2019. The increase is partially due to the difference in the number of days during the reporting periods due to the commencement of Topaz's continuing operations on November 14, 2019. Topaz's cash flow[1] of $62.1 million during the nine months ended September 30, 2020 was 406% higher than the cash flow generated during the period ended December 31, 2019 which is also primarily due to the difference in reporting periods. Commodity prices were significantly lower during the third quarter of 2020 and the nine months ended September 30, 2020, compared to the period ended December 31, 2019. The reduction in commodity prices is partially attributed to the COVID-19 pandemic and other macro-economic conditions around the world which contributed to a drastic decrease in global oil and liquids demand since the beginning of 2020. Changes in commodity prices impact Topaz's royalty revenue and cash flow and can indirectly affect its processing fee revenue and other income.

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

## Advisory

**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 operated by Tourmaline and a third party 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; the benefits to be derived from the management contract with Tourmaline; future costs, capital expenditures and debt levels of Topaz; the reserve potential of Tourmaline's assets; the anticipated production from Tourmaline'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 Credit Facility.

With respect to forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: future crude oil, condensate and natural gas prices; future interest rates and currency exchange rates; that Topaz' operations and production will not be disrupted by circumstances attributable to the COVID-19 pandemic and the responses of governments and the public to the pandemic or the oil supply conflict between OPEC members; 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 oil and natural gas successfully; Tourmaline's future production levels and growth prospects; the applicability of technologies for recovery and production of Tourmaline's 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 the Initial Acquisition 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, natural gas and condensate; reliance on Tourmaline and other third parties with respect to annual revenue streams; the uncertain impacts of COVID-19 on Topaz' business, and the societal, economic and governmental response to COVID-19; Tourmaline's ability to provide necessary management and other services to Topaz; liabilities inherent in petroleum and natural gas operations; uncertainties associated with estimating crude oil, condensate 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 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 |
| 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 |

# Interim Condensed Financial Statements

## TOPAZ ENERGY CORP.
## STATEMENTS OF FINANCIAL POSITION

| **As at**<br>($000s) *(unaudited)* | **Sept. 30, 2020** | **Dec. 31, 2019** |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash | $ 259 | $ 8,144 |
| Accounts receivable | 25,056 | 13,490 |
| Deposits | 165 | — |
| Total Current Assets | 25,480 | 21,634 |
| Deposit on acquisition | 2,000 | — |
| Petroleum and natural gas interests *(notes 6 and 7)* | 718,177 | 625,958 |
| Deferred income tax asset | 49,130 | 49,642 |
| **Total Assets** | **794,787** | **$697,234** |
| **Liabilities and Shareholders' Equity** | | |
| Accounts payable and accrued liabilities | $ 1,563 | $ 867 |
| Fair value of financial instruments *(note 4)* | 2,073 | — |
| Total Current Liabilities | 3,636 | 867 |
| Bank debt | 6,835 | — |
| Decommissioning obligation *(note 9)* | 1,404 | 629 |
| Fair value of financial instruments *(note 4)* | 367 | — |
| **Total Liabilities** | **12,242** | **1,496** |
| **Shareholders' Equity** | | |
| Share capital *(note 10)* | 789,106 | 647,003 |
| Contributed surplus | 48,722 | 48,082 |
| Retained earnings (deficit) | (55,283) | 653 |
| Total Shareholders' Equity | 782,545 | 695,738 |
| **Total Liabilities and Shareholders' Equity** | **$794,787** | **$697,234** |

(1) Refer to accompanying notes to the interim condensed financial statements
(2) Subsequent events *(notes 4 and 15)*

## TOPAZ ENERGY CORP.
## STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

| **For the periods ended** | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| ($000s, except for share information) *(unaudited)* | **Sept. 30, 2020** | **Sept. 30, 2019**[(2)] | **Sept. 30, 2020** | **Sept. 30, 2019**[(2)] |
| **Revenue** | | | | |
| Royalty production revenue *(note 12)* | $ 14,826 | — | $ 41,275 | — |
| Processing revenue *(note 12)* | 9,188 | — | 20,452 | — |
| Other income | 2,384 | — | 7,450 | — |
| Realized loss on financial instruments *(note 4)* | (506) | — | (694) | — |
| Unrealized loss on financial instruments *(note 4)* | (1,888) | — | (2,440) | — |
| | **24,004** | — | **66,043** | — |
| **Expenses** | | | | |
| Operating | 691 | — | 2,562 | — |
| Marketing | 201 | — | 413 | — |
| General and administrative | 1,030 | — | 3,273 | — |
| Share-based compensation *(note 10)* | 287 | — | 640 | — |
| Finance *(note 13)* | 79 | — | 143 | — |
| Depletion and depreciation *(note 7)* | 21,028 | — | 62,833 | — |
| | 23,316 | — | 69,864 | — |
| **Net income (loss) from continuing operations before taxes** | 688 | — | (3,821) | — |
| Deferred income tax expense | 3,623 | — | 1,473 | — |
| **Net (loss) from continuing operations** | **(2,935)** | — | **(5,294)** | — |
| Net income (loss) from discontinued operations *(note 5)* | — | (808) | — | 8,170 |
| **Net income (loss) and comprehensive income (loss)** | **$ (2,935)** | **$ (808)** | **$ (5,294)** | **$ 8,170** |
| **Net (loss) from continuing operations per common share** | | | | |
| Basic and diluted *(note 11)* | $ (0.03) | — | $ (0.06) | — |

(1) Refer to accompanying notes to the interim condensed financial statements
(2) Topaz commenced operations November 14, 2019 *(notes 1 and 5)*

## TOPAZ ENERGY CORP.
## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| ($000s) *(unaudited)* | **Share Capital**[(2)] | **Contributed Surplus**[(2)] | **Retained Earnings (deficit)**[(2)] | **Total Equity**[(2)] |
|---|---|---|---|---|
| **Balance, December 31, 2018** | **$144,000** | **$—** | **$162,339** | **$306,339** |
| Net income from discontinued operations | — | — | 8,170 | 8,170 |
| **Balance, September 30, 2019** | **$144,000** | — | **$170,509** | **$314,509** |
| Net loss from discontinued operations | — | — | (2,710) | (2,710) |
| Distributions to Tourmaline *(note 5)* | — | — | (348,536) | (348,536) |
| Issue of shares to Tourmaline *(note 10)* | 85,794 | — | — | 85,794 |
| Equity reclassification *(note 10)* | (228,794) | 48,057 | 180,737 | — |
| Issue of common shares *(note 10)* | 208,505 | — | — | 208,505 |
| Issue of common shares to Tourmaline *(note 10)* | 442,495 | — | — | 442,495 |
| Share issue costs, net of tax *(note 10)* | (4,997) | — | — | (4,997) |
| Share-based compensation *(note 10)* | — | 25 | — | 25 |
| Net income from continuing operations | — | — | 653 | 653 |
| **Balance, December 31, 2019** | **$647,003** | **$48,082** | **$653** | **$695,738** |
| Issue of common shares *(note 10)* | 145,291 | — | — | 145,291 |
| Share issue costs, net of tax *(note 10)* | (3,188) | — | — | (3,188) |
| Share-based compensation *(note 10)* | — | 640 | — | 640 |
| Net loss from continuing operations | — | — | (5,294) | (5,294) |
| Dividends to common shareholders *(note 10)* | — | — | (50,642) | (50,642) |
| **Balance, September 30, 2020** | **$789,106** | **$48,722** | **$(55,283)** | **$782,545** |

(1) Refer to accompanying notes to the interim condensed financial statements

(2) Topaz commenced operations November 14, 2019 *(notes 1 and 5)*

## TOPAZ ENERGY CORP.
## STATEMENTS OF CASH FLOWS

| **For the periods ended** | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| ($000s) *(unaudited)* | **Sept. 30, 2020** | **Sept. 30, 2019[2]** | **Sept. 30, 2020** | **Sept. 30, 2019[2]** |
| **Operating Activities** | | | | |
| Net loss from continuing operations | (2,935) | — | (5,294) | — |
| Unrealized loss on financial instruments (*note 4)* | 1,888 | — | 2,440 | — |
| Finance expenses | 3 | — | 7 | — |
| Share-based compensation (*note 10)* | 287 | — | 640 | — |
| Depletion and depreciation (*note 7)* | 21,028 | — | 62,833 | — |
| Deferred income tax expense | 3,623 | — | 1,473 | — |
| Net change in non-cash working capital | (11,323) | — | (11,344) | — |
| Cash from operating activities from continuing operations | 12,571 | — | 50,755 | — |
| Discontinued operations *(note 5)* | — | (12,375) | — | 4,580 |
| **Cash from (used in) operating activities** | **12,571** | **(12,375)** | **50,755** | **4,580** |
| **Financing Activities** | | | | |
| Issue of common shares *(note 10)* | 16,699 | — | 145,291 | — |
| Share issue costs *(note 10)* | (536) | — | (4,149) | — |
| Dividends paid *(note 10)* | (18,642) | — | (50,642) | — |
| Increase in bank debt | 6,986 | — | 6,986 | — |
| Debt transaction costs | (86) | — | (198) | — |
| Net change in non-cash working capital | (3,613) | — | — | — |
| Cash from financing activities from continuing operations | 808 | — | 97,288 | — |
| Discontinued operations *(note 5)* | — | 54,960 | — | 49,953 |
| **Cash from financing activities** | **808** | **54,960** | **97,288** | **49,953** |
| **Investing Activities** | | | | |
| Petroleum and natural gas interests (*note 7*) | (513) | — | (784) | — |
| Property and infrastructure acquisitions (*note 6*) | (153,500) | — | (153,500) | — |
| Deposit on acquisition | 500 | — | (2,000) | — |
| Net change in non-cash working capital | 356 | — | 356 | — |
| Cash used in investing activities from continuing operations | (153,157) | — | (155,928) | — |
| Discontinued operations *(note 5)* | — | (42,585) | — | (54,533) |
| **Cash (used in) investing activities** | **(153,157)** | **(42,585)** | **(155,928)** | **(54,533)** |
| **Increase in cash** | **(139,778)** | — | **(7,885)** | — |
| **Cash and cash equivalents, beginning** | **140,037** | — | **8,144** | — |
| **Cash and cash equivalents, end** | **259** | — | **259** | — |

(1) Refer to accompanying notes to the interim condensed financial statements
(2) Topaz commenced operations November 14, 2019 *(notes 1 and 5)*

## 1. NATURE OF THE ORGANIZATION

Topaz Energy Corp. ("Topaz" or the "Company") is a unique royalty and energy infrastructure company focused on generating free cash flow growth and paying reliable and sustainable dividends to its shareholders, through its strategic relationship with one of Canada's largest natural gas producers, 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 best practices.

Topaz's current business was established in November 2019 with the acquisition of certain royalty and infrastructure ownership and revenue interests from Tourmaline (the "Initial Acquisition"). The assets acquired pursuant to the Initial Acquisition included: (i) a newly created gross overriding royalty interest on natural gas, crude oil, and condensate production on 100% of Tourmaline's existing developed and undeveloped lands; (ii) a non-operated 45% jointly owned interest in two of Tourmaline's natural gas processing facilities supported by newly created long-term take-or-pay commitments from Tourmaline in relation to the two facilities; and (iii) a newly created contracted interest in a portion of certain third-party revenues generated by natural gas processing and handling agreements to which Tourmaline is a party (collectively, the "Initial Assets.")

Prior to the completion of the Initial Acquisition, Topaz (named "Exshaw Oil Corp." prior to November 8, 2019 ("Exshaw") had been engaged in upstream oil and gas exploration and production. On November 12, 2019 Topaz sold all of its E&P assets to Tourmaline (the "E&P Asset Disposition"). After giving effect to the E&P Asset Disposition and prior to the completion of the Acquisition, Topaz did not have an active business as its only assets at that time were cash and tax pools.

Topaz does not conduct upstream petroleum and natural gas exploration and production and as a result the Company has presented the results of Exshaw's operations as discontinued operations (note 5).

These financial statements reflect only the Company's proportionate interest in its business activities. The Company's registered address is Suite 2400, 525 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 1G1.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standard 34, "Interim Financial Reporting". These unaudited interim condensed financial statements do not include all of the information and disclosure required in the annual financial statements and should be read in conjunction with the Company's financial statements as at June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and 2019, and for the year ended December 31, 2019. The Company's business operations commenced on November 14, 2019 and financial results prior to the Initial Acquisition are considered discontinued operations as discussed in note 5.

The financial statements have been prepared on a going-concern basis, amounts are in thousands of Canadian dollars unless otherwise stated and were authorized for issuance by the Company's Board of Directors on November 10, 2020.

### (b) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of Topaz.

### (c) Accounting policies and significant judgements

The accounting policies and significant accounting judgements, estimates, and assumptions used in these unaudited interim condensed financial statements are consistent with those described in Notes 2 and 3 of the Company's financial statements as at June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and 2019, and for the year ended December 31, 2019.

### (d) Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

***Business Environment***

The COVID-19 pandemic and other macro-economic conditions around the world have had a significantly negative impact and have increased economic uncertainty. These conditions have contributed to a drastic decrease in global oil and liquids demand since the beginning of 2020 and have resulted in significantly lower oil and liquids prices. There is ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that it may have on demand for commodities, on our employees and on global financial markets. There is an increased potential for asset impairments or reversals of impairment over the duration of the pandemic due to increased volatility in commodity prices and decreased global economic activity.

At this time, the extent to which COVID-19 may affect the Company is uncertain; however, it is possible that COVID-19 may have further adverse effects on commodity prices, the Company's business, results of operations and financial condition depending on the severity and duration of the pandemic.

***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 royalty and non-operated 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 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, natural gas, crude oil, and condensate prices, third party facility utilization, operating and marketing expense, administrative expenses, taxes and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, royalty interest production expectations, third party facility utilization expectations and other factors that, in the Company's view, could impact cash from operating activities. At September 30, 2020, the Company had working capital (excluding financial instruments) of $23.9 million (December 31, 2019 - $20.8 million), in addition to $118.0 million undrawn on the Company's credit facility (note 8).

## 3. DETERMINATION OF FAIR VALUE

The Company's fair value measurements require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

**Level 1** – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2** – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

**Level 3** – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The Company's risk management contracts are considered Level 2.

## 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are consistent with those discussed in note 7 of the Company's financial statements as at June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and 2019, and for the year ended December 31, 2019.

As at September 30, 2020, the Company has entered into certain financial derivative contracts in order to mitigate exposure to commodity price volatility. 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 commodity and interest rate contracts to be effective economic hedges. As a result, all such contracts are recorded on the interim condensed statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain or loss on the interim condensed statement of income (loss) and comprehensive income (loss).

The following table presents the financial derivative contracts outstanding as at September 30, 2020. The fair value of these contracts is a liability of $2.4 million as detailed below.

| Natural Gas Contract Period | Type | Daily Volume | AECO 5A Price (CAD$/GJ) |
|---|---|---|---|
| Oct. 1, 2020 to Oct. 31, 2020 | Fixed price | 5,000 GJ | $1.73/GJ |
| Oct. 1, 2020 to Oct. 31, 2020 | Fixed price | 2,500 GJ | $1.75/GJ |
| Oct. 1, 2020 to Dec. 31, 2020 | Fixed price | 5,000 GJ | $1.73/GJ |
| Oct. 1, 2020 to Dec. 31, 2020 | Fixed price | 2,500 GJ | $1.72/GJ |
| Oct. 1, 2020 to Mar. 31, 2021 | Fixed price | 2,500 GJ | $2.25/GJ |
| Jan. 1, 2021 to Dec. 31, 2021 | Fixed price | 5,000 GJ | $2.09/GJ |
| Apr. 1, 2021 to Oct. 31, 2021 | Fixed price | 2,500 GJ | $2.04/GJ |
| Apr. 1, 2021 to Oct. 31, 2021 | Fixed price | 2,500 GJ | $2.035/GJ |
| Apr. 1, 2021 to Oct. 31, 2021 | Fixed price | 2,500 GJ | $2.54/GJ |

| ($000s) | At September 30, 2020 Asset | Liability |
|---|---|---|
| Current financial instruments | — | 2,073 |
| Non-current financial instruments | — | 367 |

The Company did not have any financial derivative contracts outstanding at December 31, 2019.

The following table presents any financial derivative contracts entered subsequent to September 30, 2020.

| Natural Gas Contract Period | Type | Daily Volume | AECO 5A Price (CAD$/GJ) |
|---|---|---|---|
| Nov. 1, 2020 to Nov. 30, 2020 | Fixed price | 10,000 GJ | $2.68/GJ |

The following table provides the realized and unrealized losses on financial instruments for the periods presented.

| For the period ended ($000s) | Three months September 30, 2020 | September 30, 2019[(1)] | Nine months September 30, 2020 | September 30, 2019[(1)] |
|---|---|---|---|---|
| Realized loss on financial instruments | 506 | — | 694 | — |
| Unrealized loss on financial instruments | 1,888 | — | 2,440 | — |
| **Total** | **2,394** | — | **3,134** | — |

(1) Refer to note 5 "Discontinued Operations".

The Company's financial derivative contracts are sensitive to fluctuations in commodity prices. For the contracts in place at September 30, 2020, if the future strip prices for natural gas were $0.10 per mcf higher, with all other variables held constant, the unrealized loss would increase by $0.7 million, directly impacting net income (December 31, 2019 - $nil as there were no financial derivative contracts outstanding). An equal and opposite impact would have occurred if natural gas prices were $0.10 per mcf lower.

## 5. DISCONTINUED OPERATIONS

Exshaw was incorporated under the Business Corporations Act (Alberta) in 2006 and was a controlled subsidiary of Tourmaline prior to the transactions leading up to the Initial Acquisition. Prior to the Initial Acquisition, all of Exshaw's oil and gas assets and liabilities, except for $48.1 million of deferred tax assets and $1.0 million in cash, were transferred to Tourmaline. The book value method was used to determine the value of assets and liabilities transferred. The accumulated deficit in Exshaw was then reclassified to share capital and contributed surplus balances in shareholder's equity for the continuing entity, upon receipt of shareholder approval. On November 8, 2019, articles of amendment were filed to change the Company's name to "Topaz Energy Corp." Prior to the E&P Asset Disposition, the Company conducted upstream petroleum and natural gas exploration and production operations and the results of these operations are reflected as discontinued operations.

| ($000s) | |
|---|---|
| Book value of assets and liabilities transferred: | |
| Intercompany receivable | (4,245) |
| Other current assets | (7,456) |
| Accounts payable | 6,496 |
| Bank debt | 290,206 |
| Petroleum and natural gas interests | (776,606) |
| Decommissioning obligations | 38,812 |
| Future income tax liability | 104,257 |
| Retained earnings | 348,536 |
| **Total** | **–** |

The following table presents the results of discontinued operations of Exshaw.

| **For the period ended** | **September 30, 2019** | |
|---|---|---|
| ($000s, except for share information) | **Three months** | **Nine months** |
| **Revenue** | | |
| Revenue | 21,889 | 66,757 |
| Other income | 656 | 2,438 |
| **Total** | **22,545** | **69,195** |
| Expenses | | |
| Royalties | 2,043 | 4,691 |
| Operating | 6,654 | 23,270 |
| Transportation expenses | 3,828 | 11,212 |
| General and administrative | 300 | 900 |
| Finance | 2,733 | 8,117 |
| Depletion and depreciation | 8,027 | 23,322 |
| Total expenses | 23,585 | 71,512 |
| **Net loss from discontinued operations before taxes** | **(1,040)** | **(2,317)** |
| Deferred tax recovery | (232) | (10,487) |
| **Net income (loss) from discontinued operations** | **(808)** | **8,170** |
| Per share(1) | **$(0.73)** | **$7.43** |

(1) On September 30, 2019, Exshaw had 53.3 million shares outstanding. On October 31, 2019, Tourmaline purchased the remaining 9.4% minority interest in Exshaw. In conjunction with the transaction, Exshaw completed a share consolidation which reduced the outstanding number of shares to 1.1 million. The per share calculation for the period from January 1 to November 13, 2019 is presented using the shares outstanding following the October 31, 2019 share consolidation.

The following table presents the sources and uses of cash from the discontinued operations of Exshaw.

| **For the periods ended** | **September 30, 2019** | |
|---|---|---|
| ($000s) | **Three months** | **Nine months** |
| Operating activities | (12,375) | 4,580 |
| Financing activities | 54,960 | 49,953 |
| Investing activities | (42,585) | (54,533) |

## 6. ACQUISITIONS AND DISPOSITIONS

Topaz's current business was established in November 2019 with the acquisition of the Initial Assets. Prior to closing, Topaz was a subsidiary controlled by Tourmaline and consequently was under common control at the time of the Initial Acquisition. The Company used the book value method to determine the value of assets and liabilities acquired by the Company. As a result of the common control transaction, the Company recorded net assets acquired in the amount of $637.0 million in exchange for cash to Tourmaline of $194.5 million and Topaz common shares with an assigned value of $442.5 million (58.0 million common shares).

| ($000s) | |
|---|---|
| Book value of assets and liabilities acquired: | |
| Petroleum and natural gas interests | 637,627 |
| Decommissioning obligations | (627) |
| **Total** | **637,000** |
| Consideration: | |
| Cash | 194,505 |
| Common shares | 442,495 |
| **Total** | **637,000** |

On July 2, 2020, Topaz acquired a 12.5% working interest in a natural gas processing facility for $100.0 million, before customary closing adjustments. The acquisition resulted in an increase in PP&E of approx. $100.4 million and the assumption of $0.4 million in decommissioning liabilities. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in acquired assets being accounted for as an asset acquisition.

On September 1, 2020, Topaz acquired a 25% working interest in a natural gas processing facility from Tourmaline for $52.5 million, before customary closing adjustments. At the time of the acquisition Topaz was a subsidiary controlled by Tourmaline and consequently was under common control at the time of the acquisition. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition. The acquisition resulted in an increase in PP&E of approx. $52.8 million and the assumption of $0.3 million in decommissioning obligations.

On September 1, 2020, Topaz acquired a newly created gross overriding royalty interest on approximately 76,800 gross acres of undeveloped land in the Clearwater area of Alberta for total consideration of $3.0 million. At September 30, 2020, $2.0 million was held in escrow and is subject to fulfillment of a contractual two-well drilling commitment.

## 7. PETROLEUM AND NATURAL GAS INTERESTS

### Cost

| ($000s) | **Cost** |
|---|---|
| **Balance, December 31, 2019** | **637,629** |
| Additions | 784 |
| Change in decommissioning liabilities | 75 |
| Property and infrastructure acquisitions | 154,193 |
| **Balance, September 30, 2020** | **792,681** |

### Accumulated Depletion, Depreciation & Amortization (DD&A)

| ($000s) | **Accumulated DD&A** |
|---|---|
| **Balance, December 31, 2019** | **(11,671)** |
| Depletion and depreciation | (62,833) |
| **Balance, September 30, 2020** | **(74,504)** |

### Net Book Value

| ($000s) | **Net book value** |
|---|---|
| **Balance, December 31, 2019** | **625,958** |
| **Balance, September 30, 2020** | **718,177** |

**Impairment Assessment**

In accordance with IFRS, an impairment test is performed on a CGU if the Company identifies an indicator of impairment. The Company determined that there were no indicators of impairment on the Company's CGU and there was no impairment test completed as at September 30, 2020 and December 31, 2019.

At March 31, 2020, the Company identified indicators of impairment on its CGU due to the decline in current and forward commodity prices and performed an impairment test accordingly.

An impairment is recognized if the carrying value of a CGU exceeds the recoverable amount for that CGU. The Company determines the recoverable amount by using the greater of fair value less cost to sell and the value-in-use. Value-in-use is generally the future cash flows expected to be derived from production of total developed reserves estimated by the Company's third-party reserve evaluators and internally updated to March 31, 2020 along with the internally estimated future cash flows of facility infrastructure, when required. At March 31, 2020, the Company used value-in-use, discounted at pre-tax rates ranging between 9-12%.

The following forward third-party commodity price estimates were used in determining whether an impairment to the carrying value of the CGU existed at March 31, 2020:

| Year | WTI Oil (USD$/bbl)[1] | Foreign Exchange Rate[1] | Edmonton Light Crude Oil (Cdn$/bbl)[1] | AECO Gas (Cdn$/mmbtu)[1] |
|---|---|---|---|---|
| 2020 | 43.07 | 0.7089 | 31.04 | 1.75 |
| 2021 | 50.52 | 0.7283 | 46.85 | 2.20 |
| 2022 | 63.05 | 0.7450 | 59.27 | 2.38 |
| 2023 | 69.10 | 0.7467 | 65.02 | 2.45 |
| 2024 | 72.14 | 0.7483 | 68.43 | 2.53 |
| 2025 | 75.18 | 0.7500 | 69.81 | 2.60 |
| 2026 | 76.82 | 0.7500 | 71.24 | 2.66 |
| 2027 | 78.36 | 0.7500 | 72.70 | 2.72 |
| 2028 | 79.92 | 0.7500 | 74.19 | 2.79 |
| 2029 | 83.15 | 0.7500 | 75.71 | 2.85 |
| Thereafter | +2.0%/yr | 0.7500 | +2.0%/yr | +2.0%/yr |

(1) Source: 3 consultants' average, GLJ Petroleum Consultants, McDaniel & Associates Consultants, and Sproule Associates price forecasts, effective April 1, 2020.

The Company determined that there was no impairment at March 31, 2020.

## 8. DEBT

Topaz has a covenant-based, secured, operating credit facility with a Canadian chartered bank ("Credit Facility") with an initial maturity date of June 10, 2022. In September 2020, Topaz increased the credit facility to $125.0 million. With the exception of the change in amount the credit facility was renewed under the same terms and conditions as those described in note 10 of the Company's financial statements as at June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and 2019, and for the year ended December 31, 2019. The maturity date may, at the request of the Company and with consent of the lender, be extended on an annual basis.

At September 30, 2020, the Company had $7.0 million drawn against the credit facility ($6.8 million net of debt issue costs) (December 31, 2019 - nil).

## 9. DECOMMISSIONING OBLIGATIONS

The decommissioning liability was estimated based on the Company's net ownership interest in all facilities, the estimated costs to abandon and reclaim the facilities and the estimated timing of the costs to be incurred in future periods. The estimated future cash flows have been discounted using an average risk-free rate of 0.99% and an inflation rate of 0.99% (December 31, 2019; 1.76% and 1.35%, respectively). Changes in estimates in 2020 are due to the decrease in both the risk-free rate as well as the inflation rate since December 31, 2019. The Company has estimated the net present value of the decommissioning obligations to be $1.4 million as at September 30, 2020 ($0.6 million at December 31, 2019). The undiscounted, uninflated total future liability at September 30, 2020 is $1.4 million ($0.7 million at December 31, 2019). The payments are expected to be incurred over the operating lives of the assets. The following table reconciles the decommissioning liability:

| ($000s) | |
|---|---|
| **Balance, December 31, 2019** | **629** |
| Change in estimates | 75 |
| Obligation incurred on property and infrastructure acquisitions (*note 6*) | 693 |
| Accretion expense | 7 |
| **Balance, September 30, 2020** | **1,404** |

## 10. SHARE CAPITAL

### Authorized

The authorized share capital consists of an unlimited number of common voting shares without par value. The common shares entitle holders to one vote per share at meetings of shareholders.

### Issued and Outstanding

| ($000s except share amounts) | Number of Shares | Amount |
|---|---|---|
| **Balance, December 31, 2018** | **53,340,001** | **144,000** |
| Issue of shares to Tourmaline [1] | 28,597,855 | 85,794 |
| Share consolidation [1] | (80,837,856) | — |
| Equity reclassification [2] | — | (228,794) |
| Issue of common shares [3] | 20,850,506 | 208,505 |
| Issue of common shares to Tourmaline [3] | 58,049,494 | 442,495 |
| Share issue costs, net of tax [3] | — | (4,997) |
| **Balance, December 31, 2019** | **80,000,000** | **647,003** |
| Issue of common shares [4, 5] | 13,208,296 | 145,291 |
| Share issue costs, net of tax [4, 5] | — | (3,188) |
| **Balance, September 30, 2020** | **93,208,296** | **789,106** |

1. On October 31, 2019, Tourmaline purchased the 9.4% minority interest in Exshaw, resulting in Exshaw becoming a wholly-owned subsidiary of Tourmaline. Subsequently, Tourmaline invested $85.8 million in exchange for 28.6 million common shares of Exshaw in order to repay the remaining bank indebtedness. In conjunction with the transaction, Exshaw completed a share consolidation which reduced the outstanding number of shares to 1.1 million.

2. As described in note 5, all of Exshaw's oil and gas assets and liabilities, except for $48.1 million of deferred tax assets and $1.0 million in cash, were transferred to Tourmaline in November 2019 and the book value method was used to determine the value of assets and liabilities transferred. The accumulated deficit in Exshaw of $228.8 million was then reclassified to share capital and contributed surplus balances in shareholder's equity for the continuing entity, upon receipt of shareholder approval.

3. On November 14, 2019, Topaz issued 20.85 million common shares for gross proceeds of $208.5 million. The Company incurred share issue costs of $5.0 million, net of tax. The net proceeds were used as consideration for the Acquisition described in note 6. Using the book value method to determine the value of assets and liabilities acquired from Tourmaline, management recorded net assets acquired in the amount of $637.0 million in exchange for the 58.0 million Topaz common shares with an assigned value of $442.5 million as well as cash to Tourmaline of $194.5 million.

4. On June 29, 2020, Topaz completed a private placement of 11.7 million common shares of the Company for gross proceeds of $128.6 million. The Company incurred share issue costs of $2.8 million, net of tax.

5. On July 6, 2020, Topaz completed a second tranche to its June 29, 2020 private placement and issued 1.5 million common shares for gross proceeds of $16.7 million. The Company incurred share issue costs of $0.4 million, net of tax. Following the second closing, Topaz was 63.5% owned by Tourmaline and 36.5% owned by other investors.

### Dividends

For the three and nine months ended September 30, 2020, the Company has paid $18.6 million ($0.20 per common share) and $50.6 million ($0.60 per common share), respectively, in dividends to its shareholders. No dividends were paid in 2019.

## SHARE-BASED COMPENSATION

### Stock Options

The Company has a stock option plan in place whereby it may issue stock options to employees, consultants and directors of the Company. The aggregate number of shares that may be acquired upon exercise of all options granted pursuant to the plan shall, at any date or time of determination, be not greater than 8.5% of the number of the Company's basic common shares then issued and outstanding. Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant and expire seven years from the date of issuance. At September 30, 2020, 2,050,000 stock options were outstanding.

| | Number of Stock Options | W.A.[1] exercise price |
|---|---|---|
| **Stock options outstanding, December 31, 2019** | **1,200,000** | **$10.00** |
| Granted | 850,000 | $10.47 |
| **Stock options outstanding, September 30, 2020** | **2,050,000** | **$10.20** |

(1) Weighted average

The following table summarizes stock options outstanding and exercisable at September 30, 2020.

| Exercise price | Number outstanding at period end | W.A. [1] remaining life | W.A. [1] exercise price | Number exercisable at period end | W.A.[1] exercise price |
|---|---|---|---|---|---|
| $10.00 - $11.00 | 2,050,000 | 6.40 | $10.20 | — | — |

(1) Weighted average

The fair value of stock options granted during the nine months ended September 30, 2020 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

| | Nine months ended September 30, 2020 |
|---|---|
| Fair value of options granted (weighted average) | $0.96 |
| Risk-free interest rate | 0.42% |
| Estimated hold period prior to exercise | 5.0 years |
| Expected volatility | 33% |
| Forfeiture rate | 2% |
| Dividend per share | $0.80 |

## 11. NET LOSS FROM CONTINUING OPERATIONS PER SHARE

Net loss per share amounts are calculated by dividing the net loss for the period attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the period.

| **For the period ended** | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| ($000s, except for share information) | **September 30, 2020** | **September 30, 2019[2]** | **September 30, 2020** | **September 30, 2019[2]** |
| **Net loss[2]** | **(2,935)** | — | **(5,294)** | — |
| W.A.[1] common shares - basic | 93,125,787 | — | 84,492,528 | — |
| W.A.[1] common shares - diluted | 93,125,787 | — | 84,492,528 | — |
| **Net loss per basic and diluted[3] common share** | **$(0.03)** | — | **$(0.06)** | — |

(1) Weighted average.
(2) Financial results from continuing operations. Refer to note 5 "Discontinued Operations".
(3) For the three and nine months ended September 30, 2020, 2,050,000 stock options, respectively, were excluded from the weighted average share calculation as they were anti-dilutive (three and nine months ended September 30, 2019 – nil). Refer to note 5 "Discontinued Operations" for 2019.

## 12. REVENUE

For the three and nine months ended September 30, 2020, the Company had the following revenue categories: royalty production revenue and processing revenue. The Company also generates other income by way of a contracted interest in third party revenue through fee-for-service natural gas processing contracts with no underlying facility ownership. Amounts disclosed below do not include realized or unrealized gains and losses on financial derivative contracts resulting from the Company's commodity price risk management activities.

***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 and condensate are based on market index prices in the month of production. Royalty production revenue is generally received two months after the natural gas, crude oil, and condensate are produced.

***Processing revenue***

The Company's processing revenue is generated through its non-operated ownership in processing facilities. The facilities provide natural gas processing services to customers on a fee-for-service basis. Certain fees include fixed take-or-pay arrangements under long-term commercial arrangements.

| **For the period ended** | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| ($000s) | **September 30, 2020** | **September 30, 2019[1]** | **September 30, 2020** | **September 30, 2019[1]** |
| Royalty production revenue | 14,826 | — | 41,275 | — |
| Processing revenue | 9,188 | — | 20,452 | — |
| **Total** | **24,014** | — | **61,727** | — |

(1) Refer to note 5 "Discontinued Operations".

## 13. FINANCE EXPENSES

| **For the period ended** | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| ($000s) | **September 30, 2020** | **September 30, 2019[1]** | **September 30, 2020** | **September 30, 2019[1]** |
| Accretion of decommissioning obligations | 3 | — | 7 | — |
| Interest expense | 76 | — | 136 | — |
| **Total finance expense** | **79** | — | **143** | — |

(1) Refer to note 5 "Discontinued Operations".

## 14. RELATED PARTY TRANSACTIONS

In conjunction with the Initial Acquisition and in connection with a subsequent acquisition, Topaz entered into a number of agreements with Tourmaline including a royalty, facilities and revenue interest sale agreement, gross overriding royalty agreement, Topaz Third Party Facilities ("TPF") revenue interest agreement, agreement for the construction, ownership and operation of the Brazeau Gas Plant Complex, agreement for the construction, ownership and operation of the Musreau Gas Plant Complex and agreement for the construction, ownership and operation of the Banshee Gas Plant Complex. Substantially all of Topaz's royalty production revenue, processing revenue and other income as described in these financial statements are derived from such agreements. Topaz also entered into an agreement with Tourmaline in connection with the E&P Asset Disposition.

In conjunction with the Initial Acquisition, Topaz entered into a management services agreement with Tourmaline pursuant to which Tourmaline provides certain management and administrative services required by the Company. During the three and nine months ended September 30, 2020 Topaz paid $0.3 million and $1.4 million, respectively, in respect of this agreement which were in the normal course of operations. The management and administrative services fees are being reduced on a quarterly basis through 2020 as the Company adds its own personnel and administrative functions. The agreement is currently scheduled to be terminated January 1, 2021.

## 15. SUBSEQUENT EVENTS

On October 26, 2020, Topaz completed its initial public offering and its Common Shares now trade on the Toronto Stock Exchange under the symbol "TPZ". The offering consisted of a treasury offering by the Company and a secondary offering by its majority shareholder, Tourmaline, of an aggregate of 17.7 million Common Shares for gross proceeds to the Company and Tourmaline of approximately $217.5 million and $13.0 million, respectively. On November 9, 2020, the underwriters exercised the over-allotment option in full, and purchased 2.5 million Common Shares at $13.00 per share (the "Over-Allotment Option), for gross proceeds to the Company of $32.6 million. Following the closing of the Over-Allotment Option, there are 112,448,946 Common Shares outstanding, of which Tourmaline holds 51.7%. The Common Shares trade on the Toronto Stock Exchange under the symbol "TPZ".

On November 4, 2020, Topaz entered into an agreement with Tourmaline to acquire a newly created gross overriding royalty interest on natural gas, crude oil, and condensate production on over 720,000 gross acres of developed and undeveloped lands in the Deep Basin area of Alberta ("Deep Basin") which is contiguous with Topaz's existing Deep Basin royalty interest acreage, for total consideration of $130.0 million (the "Acquisition"). The Acquisition is subject to satisfaction of customary closing conditions including Tourmaline completing a corporate acquisition it announced on November 4, 2020. The Acquisition is expected to close on January 1, 2021.

On November 10, 2020 Topaz's Board of Directors declared its fourth quarter dividend of $0.20 per share which is expected to be paid on December 31, 2020 to shareholders of record on December 15, 2020.