



Condensed Interim Financial Statements

For the period from date of incorporation, May 11, 2021, to September 30, 2021 and the three months ended September 30, 2021

**Tidewater Renewables Ltd.**  
**Condensed Interim Statement of Financial Position (unaudited)**  
(all tabular amounts expressed in thousands of Canadian dollars)

As at	Notes	September 30, 2021
<b>Assets</b>		
Current		
Cash	\$	8,074
Accounts receivable		5,654
Derivative contracts		796
		<b>14,524</b>
Derivative Contracts		2,702
Right-of-use assets	5	21,636
Property, plant and equipment	6	670,709
<b>Total assets</b>	<b>\$</b>	<b>709,571</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$	3,193
Lease liabilities	9	5,444
Derivative contracts		426
		<b>9,063</b>
Bank debt	7	40,853
Derivative contracts		302
Deferred tax liabilities	10	127,387
Decommissioning obligation	8	1,150
Lease liabilities	9	16,471
<b>Total liabilities</b>		<b>195,226</b>
<b>Equity</b>		
Share capital	11 \$	511,407
Employee share reserve		255
Retained earnings		2,683
<b>Total shareholder's equity</b>		<b>514,345</b>
<b>Total liabilities and equity</b>	<b>\$</b>	<b>709,571</b>
Economic dependence (note 1)		

*See the accompanying notes to the condensed interim financial statements*

**Tidewater Renewables Ltd.****Condensed Interim Statement of Net Income and Comprehensive Income (unaudited)**

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

	Notes	Three months ended September 30, 2021	For the period from date of incorporation, May 11, 2021 to September 30, 2021
<b>Revenue</b>	12	\$ 6,130	\$ 6,130
<b>Expenses</b>			
Operating expenses	12	1,094	1,094
General and administrative		206	206
Share-based compensation	14	255	255
Depreciation	5,6	2,115	2,115
Total expenses		3,670	3,670
Operating income		2,460	2,460
Other expenses (income)			
Finance costs and other	13	717	717
Realized gain on derivative contracts		(500)	(500)
Unrealized gain on derivative contracts		(2,770)	(2,770)
Transaction costs		271	1,271
Total other expenses (income) before tax		(2,282)	(1,282)
Earnings before income tax		4,742	3,742
Deferred income tax expense	10	1,324	1,059
Net income and comprehensive income		\$ 3,418	\$ 2,683
<b>Net income per share attributable to common shareholders – basic and diluted</b>	15	\$ 0.21	\$ 0.26

*See the accompanying notes to the condensed interim financial statements*

**Tidewater Renewables Ltd.****Condensed Interim Statements of Changes in Shareholders' Equity (unaudited)**

(all tabular amounts expressed in thousands of Canadian dollars)

	Notes	September 30, 2021
<b>Share capital</b>		
Balance, May 11, 2021		\$ -
Issue of common shares	11	519,525
Share issuance costs (net of tax)	11	(8,118)
Balance, September 30, 2021		\$ 511,407
<b>Employee share reserve</b>		
Balance, May 11, 2021		\$ -
Share-based compensation	14(b)	255
Balance, September 30, 2021		255
<b>Retained earnings</b>		
Balance, May 11, 2021		\$ -
Net income		2,683
Balance, September 30, 2021		\$ 2,683
<b>Total shareholders' equity</b>		<b>\$ 514,345</b>

*See the accompanying notes to the condensed interim financial statements*

**Tidewater Renewables Ltd.**  
**Condensed Interim Statement of Cash Flows (unaudited)**  
(all tabular amounts expressed in thousands of Canadian dollars)

	Notes	Three months ended September 30, 2021	For the period from date of incorporation, May 11, 2021 to September 30, 2021
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>			
Net income for the period		\$ 3,418	\$ 2,683
Adjustments:			
Non-cash share-based compensation	14	255	255
Depreciation	5,6	2,115	2,115
Interest and financing charges	13	221	221
Accretion	13	307	307
Unrealized gain on foreign exchange	13	189	189
Unrealized gain on derivative contracts		(2,770)	(2,770)
Deferred income tax expense		1,324	1,059
Changes in non-cash working capital	16(a)	(6,835)	(5,835)
<i>Net cash used in operating activities</i>		(1,776)	(1,776)
<b>Financing activities</b>			
Advances of bank debt		42,000	42,000
Payment of lease liabilities		(712)	(712)
Interest and financing charges paid		(1,418)	(1,418)
Proceeds from issuance of common shares	11	161,025	161,025
Share issuance costs	11	(11,045)	(11,045)
<i>Net cash provided by financing activities</i>		189,850	189,850
<b>Investing activities</b>			
Additions to property, plant and equipment		(3,374)	(3,374)
Cash paid on acquisition	4	(180,000)	(180,000)
Changes in non-cash working capital	16(b)	3,374	3,374
<i>Net cash used in investing activities</i>		(180,000)	(180,000)
<b>Increase in cash</b>		<b>8,074</b>	<b>8,074</b>
Cash at beginning of period		-	-
<b>Cash at end of period</b>		<b>\$ 8,074</b>	<b>\$ 8,074</b>

See the accompanying notes to the condensed interim financial statements

# Tidewater Renewables Ltd.

## Notes to the Condensed Interim Financial Statements (unaudited)

As at and for the three months ended September 30, 2021 and the period from date of incorporation, May 11, 2021, to September 30, 2021

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

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### 1. REPORTING ENTITY AND ECONOMIC DEPENDENCE

Tidewater Renewables Ltd. (“the Corporation”) was incorporated under the Alberta Business Corporations Act on May 11, 2021 and is a majority-owned subsidiary of Tidewater Midstream and Infrastructure Ltd. (“Tidewater Midstream”). The Corporation has been formed to become a multi-faceted, energy transition company. The Corporation is focused on the production of low carbon fuels, including renewable diesel, renewable hydrogen and renewable natural gas, as well as carbon capture.

Upon incorporation, the Corporation had limited operations and its only asset was cash. On August 18, 2021, Tidewater Renewables closed its initial public offering of 10 million common shares at a price of \$15.00 per common share for gross proceeds of \$150 million (the “Offering”) and the Corporation’s common shares began trading on the Toronto Stock Exchange under the symbol “LCFS”. On September 15, 2021, the underwriters exercised their over-allotment option, in part, to purchase an additional 735,000 common shares at the Offering price of \$15.00 per common share for gross proceeds of approximately \$11 million. The partial exercise of the over-allotment option increased the total gross proceeds of the Offering to approximately \$161 million.

In connection with the Offering, Tidewater Renewables acquired certain pre-existing operating assets as well as a number of growth projects from Tidewater Midstream that provided an initial platform for its renewable diesel, renewable hydrogen, and renewable natural gas business (the “Acquired Assets”). As consideration for the Acquired Assets, Tidewater Midstream received 23.9 million common shares of Tidewater Renewables valued at \$15.00 per common share for total share consideration of \$358.5 million and cash of \$180 million.

In conjunction with the Acquired Assets, Tidewater Renewables entered into various take-or-pay agreements with Tidewater Midstream including providing processing capacity, services and renewable products to Tidewater Midstream. Substantially all of Tidewater Renewables processing, services and renewable products revenue as described in these financial statements are derived from such agreements. Since the Corporation derives a majority of its revenues from Tidewater Midstream, it is economically dependent on Tidewater Midstream. Through these agreements, the Corporation provides a significant amount of throughput capacity to Tidewater Midstream.

The Corporation’s principal place of business is Suite 900, 222 – 3<sup>rd</sup> Ave SW, Calgary, Alberta, Canada, T2P 0B4.

### 2. BASIS OF PRESENTATION

#### a) Statement of Compliance

These condensed interim financial statements are in compliance with IAS 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board. The accounting policies applied are in accordance with International Financial Reporting Standards (“IFRS”).

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on November 3, 2021.

#### b) Basis of measurement

These interim financial statements have been prepared on a historical cost basis, except as otherwise allowed for in accordance with IFRS.

#### c) Functional and presentation currency

These interim financial statements are presented in Canadian dollars which is also the Corporation’s functional currency.

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Revenue and expenses are translated using the average exchange rates for the period. Foreign currency differences arising on translation or from the settlement of foreign currency transactions are recognized in profit or loss.

## Tidewater Renewables Ltd.

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As at and for the three months ended September 30, 2021 and the period from date of incorporation, May 11, 2021, to September 30, 2021

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### d) Use of estimates and judgements

The timely preparation of the financial statements requires management to make judgements, estimates and assumptions based on currently available information that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates, judgements and assumptions made by management in the preparation of these financial statements are outlined below.

#### *Key sources of judgement and estimation uncertainty:*

The following are the key judgement and estimation uncertainties that management believes have a significant risk of causing adjustments to the carrying amounts of assets and liabilities:

#### *Judgements*

##### *i) Acquisitions*

The determination of the fair value of the identifiable assets and liabilities acquired often requires management to make judgements about future possible events. The assumptions used in determining the fair value of property, plant and equipment, liabilities and deferred taxes often require the most judgement.

##### *ii) Depreciation*

Depreciation of an asset often requires management to make judgements regarding the determination of an asset's future economic benefit and useful life. Among other factors, these judgements are based on industry standards and historical experience.

##### *iii) Impairment*

The determination of an asset, cash generating unit ("CGU") or group of CGUs' impairment is based on management's judgements in regard to the existence of internal or external indicators of impairment. The determination of a CGU is also based on management's judgement in regard to determining the smallest group of assets that generate cash inflows independently of other assets. The asset composition of a CGU can directly impact the recoverability of the related assets. The allocation of assets into a CGU requires judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures and the way in which management monitors the operations. In assessing recoverability, each CGU's carrying value is compared against the recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use.

##### *iv) Revenue Recognition*

To determine the timing and amount of revenue recognition, management utilizes judgment which includes the nature and type of performance obligations under contract, the timing of when such performance obligations have been satisfied and the likelihood that customers will have the ability to exercise any make-up rights that have accumulated before they expire.

##### *v) Deferred income tax*

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse.

## Tidewater Renewables Ltd.

### Notes to the Condensed Interim Financial Statements (unaudited)

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#### *vi) Leases*

The determination of whether a contract is, or contains, a lease from both a lessee and lessor perspective requires management to assess whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Key judgments include whether a contract identifies an asset (or portion of an asset), whether the lessee obtains substantially all the economic benefits of the asset over the contract term and whether the lessee has the right to direct the asset's use. Judgment is also applied in determining the rate used to discount the lease payments.

#### *Estimates*

##### *i) Depreciation*

Processing facilities and related equipment are depreciated, net of estimated residual values, on a straight-line basis over their estimated useful lives. Where facilities and equipment, including major components, are significant in relation to the total cost of the assets and have differing useful lives, they are depreciated separately. Depreciation methods, useful lives and residual values are reviewed on an annual basis and, if necessary, any changes are accounted for prospectively.

##### *ii) Decommissioning obligations*

The carrying amount of decommissioning obligations depends on estimates of current pre-tax credit-adjusted risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures. The estimated costs for decommissioning obligations include activities such as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the sites.

##### *iii) Share-based compensation*

The Corporation uses the fair value method of accounting for its long-term incentive plans, which includes the Incentive Stock Option Plan, Restricted Share Units ("RSUs"), Performance Share Units ("PSU") Plan, Deferred Share Units ("DSU") Plan and the Employee Share Purchase Plan ("ESPP"). Estimates and assumptions are used in the appropriate valuation models to determine fair value.

For stock options, the Corporation uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option and forfeiture rate.

##### *iv) Acquisitions*

Management estimates the fair value of the acquired identifiable net assets and any contingent consideration at the date of acquisition. The fair values assigned through the allocation of the purchase price to net assets are based on numerous estimates that affect the valuation of certain assets and liabilities acquired including discount rates, future cash flows, fair value of any contingent consideration, replacement cost, depreciation and other factors.

##### *v) Impairment of property, plant and equipment*

In determining the recoverable amount of assets in the absence of quoted market prices, estimates are made regarding the present value of future cash flows. Future cash flow estimates are based on future production profiles and reserves for surrounding wells, commodity prices, demand for renewable product and costs. Estimates are also made in determining the discount rate used to calculate the present value of cash flows.

##### *vi) Impairment of financial assets*

The measurement of financial assets carried at amortized cost includes management's estimates regarding the expected credit losses that will be realized on these financial assets.

# Tidewater Renewables Ltd.

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### vii) *Derivative financial instruments*

Fair values of derivative contracts fluctuate depending on the underlying estimates of future commodity prices and foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data, including commodity price curves, foreign currency curves and credit spread.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to the periods presented in these financial statements.

### a) **Financial instruments**

#### *Financial assets or liabilities measured at amortized cost*

A financial asset is classified in this category if the asset is held within a business entity whose objective is to collect contractual cash flows on specified dates that are solely payments of principal and interest. At initial recognition, financial assets at amortized cost are recognized at fair value plus transaction costs. Subsequent to initial recognition, these financial assets are recorded at amortized cost using the effective interest method less any impairment losses. At each statement of financial position date an assessment is made whether there is objective evidence that a financial asset is impaired based on expected credit loss information. For the Corporation's financial assets measured at amortized cost, loss allowances are determined based on the expected credit loss over the asset's lifetime. Expected credit losses are a probability-weighted estimate of credit losses, considering possible default events over the expected life of a financial asset.

If a financial liability is not measured at fair value through profit or loss, it is measured at amortized cost. For interest bearing debt, this is the fair value of the proceeds received net of transaction costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

#### *Derivative contracts*

Derivative contracts executed by the Corporation to manage market risk are classified as fair value through profit or loss. The estimated fair value is determined by reference to observable market data including commodity price curves, foreign currency curves and credit spreads. Transaction costs are charged to the statements of income and comprehensive income as incurred. Realized gains and losses on these contracts are recorded as gains and losses on derivative contracts in the statement of net income and comprehensive income in the period they occur. Changes in fair value of the derivative contracts are recorded as unrealized gain and losses on derivative contracts in the statement of net income and comprehensive income. Derivatives may include those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. For embedded derivatives within the financial asset host contract, the embedded derivative is not separated from the host contract and instead, the whole contract is accounted for as a single instrument. For embedded derivatives within the financial liability host contract, the embedded derivative is separated from the host contract and accounted for as a derivative instrument.

The table below lists the Corporation's classification of financial instruments:

<b>Financial Instrument</b>	<b>Measurement Category</b>
Cash	Fair value through profit or loss
Accounts receivable	Amortized cost
Derivative contracts	Fair value through profit or loss
Accounts payable and accrued liabilities	Amortized cost
Bank debt	Amortized cost

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### b) Business combinations

Business combinations are accounted for using the acquisition method when the acquisitions of companies and/or assets meet the definition of a business under IFRS. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The acquired identifiable assets and liabilities and any contingent consideration are measured at their fair value at the date of acquisition. The fair value of property, plant and equipment is the estimated amount for which these assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Any excess of the purchase price over the fair value of the identifiable assets and liabilities acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable assets and liabilities, the difference is recorded as a gain in profit or loss. Associated transaction costs are expensed when incurred.

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values when available, income approach and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

### c) Leases

#### *Lease identification and initial measurement*

The Corporation assesses each new contract to determine whether it contains a lease. A specific asset is the subject of a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation allocates contract consideration to the lease and non-lease components on the basis of their relative stand-alone prices.

Key judgments include whether a contract identifies an asset (or a portion of an asset), whether the lessee obtains substantially all of the economic benefits of the asset over the contract term, whether the lessee has the right to direct the asset's use, which components are fixed or variable in nature and the discount rate. The Corporation applies its incremental borrowing rate for leases where the implicit rate cannot be readily determined.

The lease liability and initial right-of-use asset are recognized at the lease commencement date measured at the present value of fixed lease payments (including in-substance fixed payments) plus the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, discounted at a rate the Corporation would be required to borrow over a similar term.

#### *Subsequent measurement*

After initial recognition, the lease liability is accreted for the passage of time and reduced for lease settlements made during each period. For leases denominated in a currency other than the Corporation's functional currency, the lease liability is considered a monetary item and is revalued at each reporting date.

After initial recognition, the right-of-use asset is depreciated on a straight-line basis over the term of the lease. The right-of-use asset is considered a non-monetary item and is reported using the exchange rate at the lease commencement date. Similar to property, plant and equipment, right-of-use assets are subject to the impairment requirements of *IAS 36, Impairment of Assets*. The Corporation assesses right-of-use assets whenever events or changes in circumstances indicate that the carrying value of the right-of-use asset may not be recoverable. An impairment loss is recognized immediately in the statement of net income (loss) for the amount that the right-of-use asset's carrying amount exceeds its recoverable amount.

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### d) Property, plant and equipment

#### *Measurement*

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Initial cost includes expenditures that are directly attributable to the acquisition or construction of the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Corporation and the costs can be measured reliably.

Major maintenance programs (turnaround costs) comprise of costs of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Corporation, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other repair and maintenance costs are expensed as incurred.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recognized separately in profit or loss.

Borrowing costs in connection with the borrowing of funds that are attributable to the acquisition, construction or production of a qualifying asset are capitalized when the assets take a significant period of time to get ready for use or sale. Other borrowing costs are expensed as incurred.

#### *Depreciation*

Depreciation commences when property, plant and equipment are considered available for use. Depreciation is recognized in profit or loss on a straight-line basis over the useful lives of each component of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. When an item of property, plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Assets under construction are not depreciated until they are in the location and condition necessary to be capable of operating in the manner intended by management, at which point the assets under construction are transferred to property, plant and equipment.

The Corporation allocates the amount initially recognized in respect of an item of property, plant and equipment by significant component within each CGU and depreciates each component separately, as applicable. Major maintenance (turnaround costs) are depreciated over the period to the next scheduled maintenance.

Depreciation method and useful lives of the assets are reviewed annually and adjusted if appropriate. The depreciation method and estimated useful life of Corporation's property, plant and equipment are as follows:

Asset	Depreciation Method	Estimated Useful Life
Storage, injection & withdrawal facilities	Straight-line	20 - 50 years
Gathering systems	Straight-line	20 - 50 years
Refinery units	Straight-line	20 - 50 years
Equipment	Straight-line	10 - 20 years

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### *Impairment*

The carrying values of the Corporation's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. These indicators include, but are not limited to, economic performance of the assets, the Corporation's business plans, changes in commodity prices leading to lower activity levels, an increase in the discount rate and evidence of physical damage. If any such indication exists, then the CGU's recoverable amount is estimated.

For the purpose of assessing impairment, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGUs. Recoverability is measured by comparing the carrying amount of the asset or the CGU to which the asset belongs to the higher of its value in use and its fair value less costs of disposal. Value in use is calculated using estimated discounted future cash flows generated by the asset or its CGU. The Corporation estimates fair value less cost to sell based upon recent market transactions for similar assets. In the absence of such transactions, an appropriate valuation model is used.

An impairment loss is recognized if the carrying amount of an asset or its respective CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss in respect of property, plant and equipment recognized in prior years is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. Reversals of impairment losses are recognized in profit or loss.

### **e) Provisions and contingent liabilities**

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

### **f) Decommissioning obligations**

Decommissioning obligations are recognized for decommissioning and restoration obligations associated with the Corporation's property, plant and equipment. The best estimate of the expenditure required to settle the present obligation at the statement of financial position date is recorded on a discounted basis using the pre-tax credit-adjusted risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated property, plant and equipment asset and is depreciated in accordance with the depreciation policy. The obligation is accreted over time through charges to finance costs and other. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning obligation and associated property, plant and equipment asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the obligation as the costs are incurred.

### **g) Income taxes**

Income taxes are comprised of current and deferred taxes. Income taxes are recognized in net income (loss) except to the extent that they relate to items recognized directly in equity, in which case the related income taxes are also recognized directly in equity.

Current income taxes are based on the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

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Deferred taxes are recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized.

### **h) Revenue**

Revenue is measured at the fair value of the consideration received or receivable, after eliminating intercompany sales. Revenue from the rendering of services or the sale of goods is recognized when a specific performance obligation is satisfied through the transfer of goods or services to a customer.

In addition to the above general principal, the Company also applies the following specific revenue recognition policies:

#### *i) Low carbon fuels and renewable products revenue*

The Corporation generates revenue from the sale of renewable products. Revenue is recognized when the good is transferred to the customer at an amount that reflects the consideration to which the Corporation expects to be entitled to in exchange for those goods or services. Performance obligations associated with the sale of these products are satisfied at the point in time when the products are delivered to and title passes to the customer.

#### *ii) Processing and service revenue*

Processing and service revenue is generated through arrangements that are designed to recover operating costs and provide a return on capital. Fees are charged for processing intermediate products, storing liquid volumes and loading trucks and railcars through multi-year agreements. The performance obligation from this form of revenue is normally met in the period in which the services are rendered, in accordance with the applicable agreements. Under these arrangements, a fee is charged per unit processed, stored, or loaded and through the recovery of operating costs for the facility based upon that customer's pro-rata share of total unit throughput. Users of each unit are charged a fee per unit based upon that customer's pro-rata share of total throughput, with an adjustment to actual costs and throughput completed after the end of each year. Revenue from take-or-pay arrangements is recognized as the service is provided or in accordance with the terms of the agreement.

Throughput volumes and operating costs are reviewed to determine whether the estimated unit fee charged properly reflects the actual volumes and costs. The allocation of revenues and operating costs to other unit owners is also reviewed. Amounts collected in excess of the recoverable amounts are recorded as a current liability and recoverable amounts in excess of the amounts collected are recorded as a current receivable.

Rail loading and unloading fees are recognized when the volumes are delivered or received.

#### *iii) Gas storage revenue*

The Corporation's gas storage assets store natural gas for customers, including financial institutions. Storage revenue is generated through arrangements to acquire, inject, store, withdraw and dispose of customers' natural gas. The performance obligation from this form of revenue is normally met in the period in which the services are rendered, in accordance with the applicable third-party agreements. Under these arrangements, the fee is recognized in the period in which the gas acquisition, injection, storage, withdrawal, or disposition occurs. Because the Corporation does not take title to the customer's gas, the Corporation's gas storage inventory transactions are not recorded on the statement of financial position.

## Tidewater Renewables Ltd.

### Notes to the Condensed Interim Financial Statements (unaudited)

As at and for the three months ended September 30, 2021 and the period from date of incorporation, May 11, 2021, to September 30, 2021

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

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#### i) Operating and general and administrative expenses

Operating expenses consist of the weighted average cost of renewable feedstocks, storage and transportation fees, truck and rail; various field operating expenses, including salaries and benefits for operations personnel; fuel and power costs; maintenance and integrity management costs; regulatory compliance; insurance; and property taxes. General and administrative expenses consist primarily of salaries and benefits; legal fees; information systems; contract and consultant costs; and audit and tax fees.

#### j) Share-based compensation

The Corporation has a share-based incentive plan in the form of stock options, DSUs, RSUs, PSUs and ESPP.

Stock options granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method. The fair value of each option granted is estimated on the date of grant and that value is recorded as share-based compensation expense over the vesting period of the grants, with a corresponding increase to employee share reserve. The consideration received by the Corporation on the exercise of stock options is recorded as an increase to share capital together with corresponding amounts previously recognized as employee share reserve. Forfeitures are estimated based on historical information for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period. In order to record share-based compensation expense, the Corporation estimates the fair value of stock options granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeiture rates and expected dividend yields.

DSUs granted to directors of the Corporation are accounted for using the fair value method. Although DSUs vest immediately, they can only be redeemed upon termination or separation of service from the Corporation. DSUs may be settled in cash or in shares of the Corporation at the option of the Corporation. The fair value of each unit granted is estimated on the date of grant and that value is recorded as share-based compensation expense, with a corresponding increase to employee share reserve. In order to record share-based compensation expense the Corporation estimates the fair value of the units granted using assumptions related to interest rates, volatility of the underlying security and expected dividend yields.

RSUs granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method. The fair value of each RSU granted is estimated on the date of grant and that value is recorded as share-based compensation expense over the vesting period of the grants, with a corresponding increase to employee share reserve. RSUs vest over three years and expire in three years. Forfeitures are estimated based on historical information for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period. In order to record share-based compensation expense, the Corporation estimates the fair value of RSUs granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeiture rates and expected dividend yields.

PSUs are granted to officers, employees and consultants of the Corporation. The Board of Directors designates, at the time of grant, the date or dates on which all or a portion of the PSUs will vest and any performance conditions to such vesting. The fair value of the PSUs is determined on the grant date based on the market price of the common shares on the grant date. PSUs will be settled in equity in the amount equal to the fair value of the PSU on that date. The fair value is expensed over the vesting term on a graded vesting basis and represents the fair value for the graded vested portion of the PSUs outstanding. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of PSUs that vest.

The ESPP allows eligible employees to purchase common shares of the Corporation. The Corporation will match from 50% to 100% of the employee's contribution, depending on years of service, up to a maximum of 5% of the employee's base salary. The shares are acquired on the TSX consistent with the timing of the employee's remuneration. The cost of the shares purchased to match the employee's contribution is expensed as incurred.

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### k) Earnings per share

Basic earnings per common share is computed by dividing net income attributable to shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share amounts are calculated giving effect to the potential dilution that would occur if contracts to issue common shares were exercised, fully vested, or converted to common shares. The treasury stock method is used to determine the dilutive effect of dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money dilutive instruments are used to repurchase common shares at the average market price during the period.

## 4. ACQUISITION

On August 18, 2021, in conjunction with the closing of the Offering, the Corporation closed its acquisition of certain renewable assets from Tidewater Midstream (the “Acquired Assets”) for aggregate consideration of \$538.5 million (including \$180.0 million in cash and the balance in common shares). The Acquired Assets will create the initial business of the entity. The Acquired Assets include various working interests in the following: steam methane reformer, unfiner reactor, canola co-processing unit, certain utilities, storage tanks and rail and truck rack, which are located at the Prince George refinery in Prince George, British Columbia and 100% working interest in a renewable storage reservoir and related infrastructure assets, located in central Alberta. As part of the transaction Tidewater Midstream transferred \$180.0 million of deductible income tax pools to the Corporation on a tax deferred basis.

The acquisition was accounted for as a business combination under common control, which results when the Corporation subject to the acquisition is ultimately controlled by the same party before and after the combination transaction. Tidewater Midstream controlled the Acquired Assets prior to August 18, 2021 and retained approximately 69% of the common shares after closing. IFRS 3 scopes out business combinations under common control and is not prescriptive otherwise as to the method of accounting for such transactions. In the absence of specific guidance in IFRS, the Corporation has the option to account for the transaction at cost or using the acquisition method under IFRS 3. The Corporation determined that the acquisition method is an acceptable accounting policy choice since the transaction has commercial substance and fair value accounting provides the most relevant and reliable information for the users of the financial statements. The acquisition has been accounted for as a business combination using the acquisition method where the acquired assets and liabilities assumed are recorded at their estimated fair values, with the exception of deferred income tax liabilities, right-of-use assets and leases liabilities, which are measured in accordance with the Corporation’s accounting policies.

The following summarizes the purchase price allocation:

<b>Consideration for the acquisition (\$000s):</b>	
Cash	\$ 180,000
Common shares	358,500
Total consideration	\$ 538,500

  

<b>Allocation of the purchase price:</b>	
Right-of-use asset	\$ 22,202
Property, plant, and equipment	668,884
Lease liability - current	(5,206)
Lease liability - long term	(16,996)
Decommissioning obligations	(1,129)
Deferred tax liabilities	(129,255)
Total net assets acquired	\$ 538,500

The fair value of the assets and liabilities recognized are estimates due to the uncertainty of provisional amounts recognized. Amendments may be made to the purchase price equation as estimates are finalized.

## Tidewater Renewables Ltd.

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Results from the Acquired Assets are included in the Corporation's financial statements from the closing date of the transaction. Since August 18, 2021, revenue of \$6.1 million and earnings before tax of \$2.7 million, after transaction costs of \$1.3 million, were included in the statement of net income and comprehensive income associated with the acquisition. If the Acquired Assets were purchased at inception on May 11, 2021, the Corporation would have generated an additional \$13.7 million of revenue, incurred an additional \$2.4 million of operating expenses, and generated an additional \$3.3 million of net income for the period from date of incorporation, May 11, 2021, to September 30, 2021.

#### 5. RIGHT-OF-USE ASSETS

Right-of-use assets are comprised of the following:

		Rail cars		Field equipment		Total
<b>COST</b>						
Balance, May 11, 2021	\$	-	\$	-	\$	-
Acquisition (note 4)		22,026		176		22,202
Additions		-		-		-
<b>Balance, September 30, 2021</b>	<b>\$</b>	<b>22,026</b>	<b>\$</b>	<b>176</b>	<b>\$</b>	<b>22,202</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance, May 11, 2021	\$	-	\$	-	\$	-
Depreciation		527		39		566
<b>Balance, September 30, 2021</b>	<b>\$</b>	<b>527</b>	<b>\$</b>	<b>39</b>	<b>\$</b>	<b>566</b>
<b>NET BOOK VALUE</b>						
May 11, 2021	\$	-	\$	-	\$	-
<b>September 30, 2021</b>	<b>\$</b>	<b>21,499</b>	<b>\$</b>	<b>137</b>	<b>\$</b>	<b>21,636</b>

#### 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

		Plant and infrastructure		Assets under construction		Total
<b>COST</b>						
Balance, May 11, 2021	\$	-	\$	-	\$	-
Acquisition (note 4)		625,914		42,970		668,884
Additions		457		2,917		3,374
<b>Balance, September 30, 2021</b>	<b>\$</b>	<b>626,371</b>	<b>\$</b>	<b>45,887</b>	<b>\$</b>	<b>672,258</b>
<b>ACCUMULATED DEPRECIATION</b>						
Balance, May 11, 2021	\$	-	\$	-	\$	-
Depreciation		1,549		-		1,549
<b>Balance, September 30, 2021</b>	<b>\$</b>	<b>1,549</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>1,549</b>
<b>NET BOOK VALUE</b>						
May 11, 2021	\$	-	\$	-	\$	-
<b>September 30, 2021</b>	<b>\$</b>	<b>624,822</b>	<b>\$</b>	<b>45,887</b>	<b>\$</b>	<b>670,709</b>

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### 7. BANK DEBT

The following table summarizes the Corporation's bank debt:

	<b>September 30, 2021</b>
Senior Credit Facility	\$ 42,000
Financing costs	(1,147)
<b>Total bank debt</b>	<b>\$ 40,853</b>

Tidewater Midstream and Tidewater Renewables each have a revolving credit facility (each, a "Senior Credit Facility" and together, the "Senior Credit Facilities") with a syndicate of banks. Although the Senior Credit Facilities are not cross-collateralized, the agreements governing the Senior Credit Facilities provide that each lender's commitment thereunder will be equivalent to its proportionate commitment under both facilities, until the first unanimous extension.

Total availability under the Corporation's Senior Credit Facility is \$150 million and matures on August 18, 2024 with a one year renewal option at the request of the Corporation, subject to Lender approval. The Senior Credit Facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate or banker's acceptance rates, plus applicable margins.

Tidewater Renewables is required to maintain certain financial covenants on a trailing-quarterly (annualized) basis including consolidated debt (being, Tidewater Renewables' senior debt) to adjusted EBITDA of less than or equal to 3.5:1; first lien senior debt (being, Tidewater Renewables' senior debt) to adjusted EBITDA of less than or equal to 2.5:1; and an adjusted EBITDA to interest coverage ratio greater than or equal to 2.5:1. The calculations for each of these ratios are based on specific definitions in the agreements governing the Senior Credit Facility, are not in accordance with GAAP, and cannot be easily calculated by referring to the Corporation's financial statements. At September 30, 2021, Tidewater Renewables was in compliance with its financial covenants, reporting consolidated debt to adjusted EBITDA ratio of 0.9:1, consolidated, first lien senior debt to adjusted EBITDA ratio of 0.9:1 and adjusted EBITDA to interest coverage ratio of 21.5:1.

The Corporation must also maintain contracts with investment grade entities representing no less than 80% of EBITDA having a term of no less than three years, provided that for purposes of this covenant, Tidewater Midstream shall be deemed to be investment grade.

### 8. DECOMMISSIONING OBLIGATIONS

The decommissioning obligation reflects the discounted cash flows expected to be incurred to decommission the Corporation's pipeline systems, storage facilities, and refinery units. The estimated economic lives of assets covered by the decommissioning provision range up to 150 years. The obligation was inflated using a rate of 1.75% and discounted using a credit-adjusted risk-free rate of 7.50%.

The following table summarizes changes in the decommissioning obligations:

	<b>September 30, 2021</b>
Balance, May 11, 2021	\$ -
Acquisitions (note 4)	1,129
Accretion	21
<b>Balance, end of period</b>	<b>\$ 1,150</b>

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### 9. LEASE LIABILITIES

The Corporation's lease liabilities primarily relate to rail cars and field equipment for the Corporation's facilities and energy service arrangements.

	<b>September 30, 2021</b>
Balance, May 11, 2021	\$ -
Acquisition (note 4)	22,202
Additions	-
Accretion	236
Lease payments	(712)
Foreign exchange re-measurement	189
<b>Total lease liabilities</b>	<b>\$ 21,915</b>
Current portion of lease liabilities	5,444
Long term lease liabilities	16,471

Undiscounted payments associated with lease liabilities as at September 30, 2021 are summarized below:

	Within one year	After one year but not more than five years	More than five years	Total
Undiscounted lease payments	\$ 5,466	\$ 18,220	\$ 1,770	\$ 25,456

As at September 30, 2021, the incremental borrowing rate used to measure lease liabilities was 6.50%.

### 10. INCOME TAXES

The provision for deferred taxes in the statements of income and comprehensive income reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

	<b>Three months ended September 30, 2021</b>	<b>For the period from date of incorporation, May 11, 2021 to September 30, 2021</b>
Income before taxes	\$ 4,742	\$ 3,742
Combined federal and provincial tax rates	26.5%	26.5%
Expected tax expense	1,257	992
Differences from:		
Share-based compensation	67	67
<b>Deferred tax expense</b>	<b>\$ 1,324</b>	<b>\$ 1,059</b>

## Tidewater Renewables Ltd.

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The following table summarizes the movement of deferred taxes:

Asset (Liability)	May 11, 2021	Acquisition (note 4)	Recognized in:		September 30, 2021
			Profit or loss	Equity	
Property, plant and equipment and leases	\$ -	\$ (129,554)	\$ (6,224)	\$ -	\$ (135,778)
Decommissioning obligation	-	299	6	-	305
Derivative contracts	-	-	(734)	-	(734)
Unamortized share issuance costs and finance costs	-	-	(636)	2,927	2,291
Non-capital losses	-	-	6,529	-	6,529
<b>Total</b>	<b>\$ -</b>	<b>\$ (129,255)</b>	<b>\$ (1,059)</b>	<b>\$ 2,927</b>	<b>\$ (127,387)</b>

The Corporation's tax rate of 26.5% consists of the combined federal and provincial statutory rates for the period ended September 30, 2021. As at September 30, 2021, the Corporation has estimated federal tax pools of \$177 million available for deduction against future taxable income. The Corporation has \$16 million of unused tax losses expiring in 2041.

## 11. SHARE CAPITAL

### a) Authorized

Unlimited number of voting common shares and unlimited number of preferred shares issuable in series.

### b) Issued

	Number of Shares (000s)	Amount
Balance, May 11, 2021	-	\$ -
Issuance of common shares, initial public offering	10,735	161,025
Issuance of common shares to Tidewater Midstream (note 4)	23,900	358,500
Share issuance costs (net of tax)	-	(8,118)
<b>Balance, September 30, 2021</b>	<b>34,635</b>	<b>\$ 511,407</b>

Upon incorporation, the Corporation issued 1 common share for nominal cash proceeds. Prior to the Offering, the Corporation also issued 50,000,000 voting preferred shares to Tidewater Midstream for cash proceeds of \$1,000, which were subsequently redeemed.

On August 12, 2021, the Corporation filed a supplemented PREP prospectus to qualify the distribution of 10,000,000 common shares of the Corporation at a price of \$15.00 per common share for aggregate gross proceeds of \$150,000,000. In connection with the Offering, the Corporation issued 23,900,000 common shares to Tidewater Midstream as part of the consideration for the Acquired Assets, as described in note 4. On September 15, 2021, the underwriters exercised their over-allotment option, in part, to purchase an additional 735,000 common shares at the Offering price of \$15.00 per common share for gross proceeds of \$11,025,000. The partial exercise of the over-allotment option increased the total gross proceeds of the Offering to \$161 million. Underwriter commissions of \$9.7 million were 6% of the total gross proceeds raised from the Offering.

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### 12. REVENUE AND OPERATING EXPENSES

For the three months ended September 30, 2021 and for the period from date of incorporation, May 11, 2021 to September 31, 2021 the Corporation had one vertically integrated operating segment: renewable energy, as the chief operating decision maker reviews operating results at this level to assess financial performance and make resource allocation decisions. The renewable energy operating segment includes the following revenue categories: renewable fuels and renewable natural gas. Amounts disclosed below do not include realized or unrealized gains and losses on derivative contracts resulting from the Corporation's commodity price risk management initiatives.

<b>For the three months ended September 30, 2021 and for the period from date of incorporation, May 11, 2021 to September 30, 2021</b>	Renewable Fuels		Renewable Natural Gas		Total
Revenue	\$	5,089	\$	1,041	\$ 6,130
Operating expenses		(1,006)		(88)	(1,094)
	\$	4,083	\$	953	\$ 5,036

### 13. FINANCE COSTS AND OTHER

Finance costs and other is comprised of the following:

	<b>Three months ended September 30, 2021</b>		<b>For the period from date of incorporation, May 11, 2021 to September 30, 2021</b>	
Interest on bank debt	\$	221	\$	221
Realized foreign exchange gain <sup>(1)</sup>		189		189
Total finance costs and other before accretion	\$	410	\$	410
Unwinding of discount on decommissioning obligation		21		21
Unwinding of discount on bank debt		50		50
Unwinding of discount on lease liabilities		236		236
Accretion		307		307
<b>Total finance costs and other</b>	<b>\$</b>	<b>717</b>	<b>\$</b>	<b>717</b>

<sup>(1)</sup> Relates to translation of USD denominated lease liabilities.

### 14. SHARE-BASED COMPENSATION

#### a) Share Awards

A summary of the stock options, restricted share units and deferred share units granted, issued and outstanding is as follows:

<b>(000's)</b>	RSUs	DSUs	Total
Outstanding, May 11, 2021	-	-	-
Granted	41	15	56
Exercised	-	-	-
Forfeited	-	-	-
Expired	-	-	-
<b>Outstanding, September 30, 2021</b>	<b>41</b>	<b>15</b>	<b>56</b>
<b>Exercisable, September 30, 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>

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### b) Share-Based Compensation Expense

Share-based compensation comprised of the following:

	Three months ended September 30, 2021	For the period from date of incorporation, May 11, 2021 to September 30, 2021
RSUs	\$ 29	\$ 29
DSUs	226	226
<b>Share-based compensation expense</b>	<b>\$ 255</b>	<b>\$ 255</b>

### 15. NET INCOME PER SHARE

	Three months ended September 30, 2021		
	Net income	Common shares (000s)	Net income per share
Net income attributable to shareholders - basic	\$ 3,418	15,964	\$ 0.21
Dilutive effect of share awards	-	18	0.00
Net income attributable to shareholders - diluted	\$ 3,418	15,982	\$ 0.21

For the three months ended September 30, 2021, NIL million share awards were anti-dilutive.

	For the period from date of incorporation, May 11, 2021 to September 30, 2021		
	Net income	Common shares (000s)	Net income per share
Net income attributable to shareholders - basic	\$ 2,683	10,343	\$ 0.26
Dilutive effect of share awards	-	12	0.00
Net income attributable to shareholders - diluted	\$ 3,683	10,355	\$ 0.26

For the period from date of incorporation, May 11, 2021 to September 30, 2021, NIL million share awards were anti-dilutive.

### 16. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital from operating activities were as follows:

	Three months ended September 30, 2021	For the period from date of incorporation, May 11, 2021 to September 30, 2021
Accounts receivable	\$ (5,654)	\$ (5,654)
Accounts payable and accrued liabilities	(1,181)	(181)
Change in non-cash working capital from operating activities	\$ (6,835)	\$ (5,835)

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b) Changes in non-cash working capital from investing activities were as follows:

	<b>Three months ended September 30, 2021</b>	<b>For the period from date of incorporation, May 11, 2021 to September 30, 2021</b>
Accounts payable and accrued liabilities	\$ 3,374	\$ 3,374
Change in non-cash working capital from operating activities	\$ 3,374	\$ 3,374

c) Interest paid

During the three months ended September 30, 2021, and for the period from date of incorporation, May 11, 2021, to September 30, 2021, total interest and financing charges paid, \$0.2 million and \$0.2 million, respectively.

## 17. CAPITAL MANAGEMENT

The Corporation manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve ongoing business objectives including funding of future investment and growth opportunities and financial obligations; and
- To maximize shareholder return by enhancing share value.

The Corporation considers its capital employed to be bank debt and shareholders' equity:

	<b>September 30, 2021</b>
Bank debt	\$ 40,853
Shareholders' equity	514,345

The Corporation makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Corporation generally relies on credit facilities and cash flows from operations in excess of interest to fund capital requirements. To maintain or modify its capital structure, the Corporation may issue new common or preferred shares, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt. The Corporation is not currently subject to any externally imposed capital requirements, other than covenants on its bank debt (note 7). The Corporation was compliant with all financial covenants as at September 30, 2021.

The Corporation also monitors capital structure based on consolidated net debt to adjusted EBITDA. The definition of adjusted EBITDA for capital management purposes is the same measure used in the calculation of the Corporation's financial covenants on its Senior Credit Facility (note 7). This metric measures the Corporation's financial leverage.

The following table presents the Corporation's net debt:

	<b>September 30, 2021</b>
Senior Credit Facility	\$ 42,000
Cash	(8,074)
<b>Net debt</b>	<b>\$ 33,926</b>

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### 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board of Directors has the overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, the Corporation's management has the responsibility to administer and monitor those risks.

The Corporation's activities expose it to a variety of financial risks that arise as a result of its operating and financing activities, such as credit risk, market risk and liquidity risk.

This note presents information about the Corporation's exposure to each of the above risks, and the Corporation's objectives, policies and processes for measuring and managing these risks.

#### a) Fair value determination

A number of the Corporation's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining the fair values is disclosed in the notes specific to that asset or liability.

The Corporation classifies the fair value of financial instruments according to the following hierarchies based on the amount of observable inputs used to value the instruments:

- Level 1 – values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value of any marketable securities has been derived with reference to the quoted closing bid prices of the underlying securities.
- Level 2 – values based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. Such inputs can be corroborated with other observable inputs for substantially the complete term of the contract. The fair value is derived with reference to commodity price curves, currency curves and credit spreads.
- Level 3 – values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The Corporation has used Level 2 to determine the fair value of its derivative contracts which includes exchange-cleared commodity derivatives and over-the-counter commodity derivatives that are traded in observable markets.

The Corporation used a Level 1 input to determine the fair value of property, plant and equipment acquired as part of the Acquired Assets described in note 4, as the majority of the consideration was comprised of commons shares and immediately followed the closing of the Offering.

At September 30, 2021, the fair value of cash, accounts receivable, accounts payable and accrued liabilities approximated their carrying value due to their short-term maturity. The carrying value of the outstanding bank debt approximated its fair value due to the use of floating interest rates.

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### b) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Corporation's accounts receivable from customers and joint interest partners. The maximum exposure to credit risk at September 30, 2021 is as follows:

	September 30, 2021
Cash	\$ 8,074
Accounts receivable	5,654
Derivative contracts – current	796
Derivative contracts – long term	2,702
	\$ 17,226

Cash consists of amounts on deposit with Canadian chartered banks. The Corporation manages credit exposure of cash by selecting financial institutions with high credit ratings.

The Corporation performs creditworthiness assessment on counterparties, including financial status and external credit ratings. Depending on the outcome of each assessment, letters of credit, prepayments, or some other form of credit enhancement may be requested as security.

The Corporation's accounts receivable as at September 30, 2021 relate to contractual agreements. At September 30, 2021, the majority of all amounts owing to the Corporation were due from its controlling shareholder, Tidewater Midstream. Revenues earned from Tidewater Midstream for the periods from incorporation on May 11, 2021 to September 30, 2021 and the three months ended September 30, 2021 accounted for approximately 99% of the Corporation's revenues, totaling \$6.0 million for each period. At September 30, 2021, the Corporation does not have any receivables over 90 days. The Corporation believes the financial risks associated with Tidewater Midstream are minimal.

The Corporation assesses lifetime expected credit losses for accounts receivable using historical default rates, aged accounts receivable analysis, and forward-looking information to determine the appropriate expected credit losses. At September 30, 2021, lifetime expected credit losses for accounts receivable outstanding were \$NIL million.

The Corporation enters into derivative contracts to manage commodity price risk, which may be subject to credit risk associated with counterparties with which it contracts. Credit risk is mitigated by entering into contracts only with stable, investment grade counterparties or financial institutions.

### c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. Management's assessment of its liquidity reflects estimates, assumptions and judgements relating to current market conditions.

The Corporation anticipates that working capital, cash flow from operating activities and other sources of financing will be sufficient to meet its obligations and financial commitments and will provide sufficient funding for anticipated capital expenditures.

## Tidewater Renewables Ltd.

Notes to the Condensed Interim Financial Statements (unaudited)

As at and for the three months ended September 30, 2021 and the period from date of incorporation, May 11, 2021, to September 30, 2021

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

The following details the contractual maturities of the Corporation's financial liabilities as at September 30, 2021:

	September 30, 2021	
	Less than one year	Greater than one year
Accounts payable and accrued liabilities	\$ 3,193	\$ -
Derivative contracts	426	302
Lease liabilities	5,444	16,471
Bank debt	-	42,000
	<u>\$ 9,063</u>	<u>\$ 58,773</u>

### d) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates, will affect the Corporation's cash flow, income or the value of its financial instruments. The objective of the Corporation's market risk management program is to manage and control market risk exposures within acceptable parameters, while maximizing the Corporation's return.

#### a. Interest rate risk

Interest rate risk refers to the risk that the value of the financial instrument or cash flows associated with the financial instrument will fluctuate due to changes in market interest rates. The Corporation continuously monitors interest rates and economic conditions. The Corporation may use forward interest rate swaps to hedge the interest rate associated with interest payments occurring as a result of its bank debt. At September 30, 2021, the Corporation had variable rate bank debt (note 7) totalling \$40.9 million and therefore a 1% change in the interest rate on bank debt would have had an after-tax impact of \$0.1 million on net income for the periods from incorporation on May 11, 2021 to September 30, 2021 and the three months ended September 30, 2021.

#### b. Foreign currency exchange rate risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from certain working capital balances denominated in United States Dollars (USD). The Corporation continuously monitors exchange rate trends and economic conditions. At September 30, 2021, working capital balances denominated in USD were \$4.2 million. A 5% change in foreign exchange rates between the USD and the Canadian Dollar would have an after-tax impact on net income of \$0.2 million impact on net income for the periods from incorporation on May 11, 2021 to September 30, 2021 and the three months ended September 30, 2021.

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### c. *Commodity price risk*

Commodity price risk is the risk that the fair value of a commodity derivative will fluctuate because of changes in market prices. In the normal course of operations, the Corporation purchases and sells various commodities and uses derivatives to protect its revenue and operating costs from price fluctuations. The Corporation's commodity price risk management policies are designed to help ensure that its hedging activities address its risks by monitoring its derivative positions, as well as physical volumes, grades, locations, and storage capacity. These include renewable and low carbon fuel feedstocks, to hedge the cost of inputs for low carbon and renewable fuels. The Corporation is subject to price risk through these derivative contract assets and liabilities. A 10% change in prices for the underlying commodities, related to the Corporation's derivative contracts, would have an after-tax impact on net income of \$15.5 million for the period ended September 30, 2021.

## 19. RELATED PARTY TRANSACTION

In conjunction with the Offering and the Acquisition described in notes 1 and 4, the Corporation entered into numerous agreements with its controlling shareholder Tidewater Midstream. During the period from date of incorporation, May 11, 2021 to September 30, 2021 and the three months ended September 30, 2021, the Corporation incurred the following related party transactions in connection with these agreements:

- Earned revenue of \$6.1 million.
- Incurred operating expenses of \$1.1 million.
- Incurred general and administrative expenses of \$0.2 million under the shared services agreement.

The Corporation and Tidewater Midstream entered into certain contracts as a result of Tidewater Midstream entering into derivative contracts with third parties on the Corporation's behalf. During the period from date of incorporation, May 11, 2021 to September 30, 2021 and the three months ended September 30, 2021, the Corporation included in realized gain on derivative contracts of \$0.5 million and unrealized gain on derivative contracts of \$2.8 million in connection with these contracts.

Of the total amounts incurred at September 30, 2021, \$5.3 million remains as net accounts receivable and \$1.3 million as net accounts payable.