



Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2022

Tidewater Renewables Ltd.

Condensed Interim Consolidated Statement of Financial Position (unaudited)

(all tabular amounts expressed in thousands of Canadian dollars)

As at	Notes	September 30, 2022	December 31, 2021
Assets			
Current			
Cash		\$ 1,382	\$ 1,022
Accounts receivable		9,316	7,023
Derivative contracts		9,184	543
Inventory and emission credits	3	13,138	-
Prepaid expenses and other		1,355	474
		34,375	9,062
Derivative contracts		8,090	-
Investments	4	24,711	-
Right-of-use assets	5	19,593	22,659
Property, plant and equipment	6	828,442	699,271
Total assets		\$ 915,211	\$ 730,992
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 74,818	\$ 1,780
Derivative contracts		7,848	-
Bank debt	7,19	15,222	-
Lease liabilities	9	6,049	5,535
		103,937	7,315
Bank debt	7	107,419	58,952
Derivative contracts		19,110	2,095
Lease liabilities	9	15,753	17,377
Decommissioning obligations	8	1,237	1,171
Deferred tax liabilities		132,470	128,486
Total liabilities		379,926	215,396
Equity			
Non-controlling interest	11	6,500	-
Shareholders' equity			
Share capital	10	512,475	512,483
Employee share reserve		1,737	350
Retained earnings		14,573	2,763
Total shareholders' equity		528,785	515,596
Total shareholders' equity and non-controlling interest		535,285	515,596
Total liabilities and equity		\$ 915,211	\$ 730,992

Economic dependence (note 1)

Subsequent event (note 19)

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.

Condensed Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) (unaudited)

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

	Notes	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	For the period from date of incorporation, May 11, 2021, to September 30, 2021
Revenue	12	\$ 19,697	\$ 6,130	\$ 56,677	\$ 6,130
Expenses					
Operating expenses	12	8,142	1,094	22,001	1,094
General and administrative		1,652	206	4,244	206
Share-based compensation	14	1,123	255	2,477	255
Depreciation	5,6	4,878	2,115	14,381	2,115
Total expenses		15,795	3,670	43,103	3,670
Operating income		3,902	2,460	13,574	2,460
Other expenses (income)					
Finance costs and other	13	2,697	717	4,881	717
Realized gain on derivative contracts		(5,314)	(500)	(13,782)	(500)
Unrealized loss (gain) on derivative contracts		22,441	(2,770)	8,132	(2,770)
Income from equity investment	4	(1,737)	-	(2,111)	-
Transaction costs		260	271	660	1,271
Total other expenses (income) before tax		18,347	(2,282)	(2,220)	(1,282)
Earnings (loss) before income tax		(14,445)	4,742	15,794	3,742
Deferred income tax expense (recovery)		(4,378)	1,324	3,984	1,059
Net income (loss) and comprehensive income (loss)		\$ (10,067)	\$ 3,418	\$ 11,810	\$ 2,683
Net income (loss) and comprehensive income (loss) attributable to:					
Shareholders of the corporation		(10,067)	3,418	11,810	2,683
Non-controlling interest		-	-	-	-
		\$ (10,067)	\$ 3,418	\$ 11,810	\$ 2,683
Net income (loss) per share attributable to common shareholders – basic and diluted	15	\$ (0.29)	\$ 0.21	\$ 0.34	\$ 0.26

See the accompanying notes to the condensed interim consolidated financial statements

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

(all tabular amounts expressed in thousands of Canadian dollars)

	Notes	September 30, 2022	September 30, 2021
Non-controlling interest			
Balance, beginning of period		\$ -	\$ -
Contributions from non-controlling interest	6,11	6,500	-
Balance, September 30, 2022		\$ 6,500	\$ -
Share capital			
Balance, beginning of period		\$ 512,483	\$ -
Issue of common shares	10	-	519,525
Share issuance costs (net of tax)	10	(8)	(8,118)
Balance, September 30, 2022		\$ 512,475	\$ 511,407
Employee share reserve			
Balance, beginning of period		\$ 350	\$ -
Share-based compensation		1,387	255
Balance, September 30, 2022		\$ 1,737	\$ 255
Retained earnings			
Balance, beginning of period		\$ 2,763	\$ -
Net income		11,810	2,683
Balance, September 30, 2022		\$ 14,573	\$ 2,683
Total shareholders' equity and non-controlling interest		\$ 535,285	\$ 514,345

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.

Condensed Interim Consolidated Statement of Cash Flows (unaudited)

(all tabular amounts expressed in thousands of Canadian dollars)

		Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	For the period from date of incorporation, May 11, 2021, to September 30, 2021
	Notes				
Cash provided by (used in):					
Operating activities					
Net income (loss) for the period		\$ (10,067)	\$ 3,418	\$ 11,810	\$ 2,683
Adjustments:					
Non-cash share-based compensation		339	255	1,387	255
Depreciation	5,6	4,878	2,115	14,381	2,115
Interest and financing charges	13	1,161	221	2,163	221
Accretion	13	791	307	1,750	307
Unrealized loss on foreign exchange	13	1,321	189	1,677	189
Unrealized loss (gain) on derivative contracts		22,441	(2,770)	8,132	(2,770)
Income from equity investment		(1,737)	-	(2,111)	-
Deferred income tax expense (recovery)		(4,378)	1,324	3,984	1,059
Changes in non-cash working capital	16(a)	(9,588)	(6,835)	(4,824)	(5,835)
<i>Net cash provided by operating activities</i>		5,161	(1,776)	38,349	(1,776)
Financing activities					
Advances of bank debt	7	7,793	42,000	65,693	42,000
Payment of lease liabilities	9	(1,489)	(712)	(4,394)	(712)
Interest and financing charges paid		(3,015)	(1,418)	(5,680)	(1,418)
Proceeds from issuance of common shares	10	-	161,025	-	161,025
Share issuance costs	10	-	(11,045)	(8)	(11,045)
<i>Net cash provided by financing activities</i>		3,289	189,850	55,611	189,850
Investing activities					
Additions to property, plant and equipment	6	(58,183)	(3,374)	(167,745)	(3,374)
Cash paid on acquisition		-	(180,000)	-	(180,000)
Proceeds from capital emission credit sales	3	11,500	-	22,730	-
Contributions to investments	4	(7,600)	-	(22,600)	-
Changes in non-cash working capital	16(b)	37,144	3,374	74,015	3,374
<i>Net cash used in investing activities</i>		(17,139)	(180,000)	(93,600)	(180,000)
Increase (decrease) in cash		(8,689)	8,074	360	8,074
Cash at beginning of period		10,071	-	1,022	-
Cash at end of period		\$ 1,382	\$ 8,074	\$ 1,382	\$ 8,074

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

1. REPORTING ENTITY AND ECONOMIC DEPENDENCE

Tidewater Renewables Ltd. (the “Corporation” or “Tidewater Renewables”) was incorporated under the Alberta Business Corporations Act (Alberta) on May 11, 2021 and is a majority-owned subsidiary of Tidewater Midstream and Infrastructure Ltd. (“Tidewater Midstream”). The Corporation is multi-faceted, energy transition company. Tidewater Renewables is focused on the production of low carbon fuels, including renewable diesel, renewable hydrogen and renewable natural gas, as well as carbon capture. The Corporation’s common shares trade on the Toronto Stock Exchange (“TSX”) under the symbol “LCFS”.

On August 18, 2021, the Corporation acquired certain assets from and entered into various take-or-pay agreements with Tidewater Midstream. The take-or-pay agreements provide processing capacity, services, and renewable products to Tidewater Midstream. Substantially all of Tidewater Renewables’ processing, services, and renewable products revenue, as described in these condensed interim consolidated 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 operates its business through a number of subsidiaries including a wholly owned feedstock supplier and the Rimrock Renewables Limited Partnership (“RNG LP”), which it controls. The Corporation also has a joint venture investment in Rimrock Cattle Company Ltd. (“RCC”).

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

2. BASIS OF PRESENTATION

a) Statement of Compliance

These condensed interim consolidated 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”) and are consistent with the Corporation’s consolidated financial statements as at December 31, 2021 and for the period from date of incorporation, May 11, 2021, to December 31, 2021, other than those that have been adopted below. These condensed interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2022 do not include all disclosures required for the preparation of annual consolidated financial statements and should be read in conjunction with the Corporation’s consolidated financial statements as at December 31, 2021 and for the period from date of incorporation, May 11, 2021, to December 31, 2021.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 9, 2022.

b) Accounting Policies

Inventory

Inventory consists of renewable feedstocks, renewable refined products and emission credits. Renewable feedstock and renewable refined product inventories are valued at the lower of weighted average cost or net realizable value. Net realizable value is the estimated future sales price of the refined product the Corporation expects to realize when the refined product is processed and sold, less estimated costs to complete production and bring the refined product to sale.

Net realizable value represents the estimated selling price for inventories less selling expenses. The reversal of previous net realizable value write-downs is recorded when there is a subsequent increase in the value of inventories.

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

Costs for renewable feedstock and renewable refined product include direct purchase costs and an appropriate portion of fixed and variable overhead costs incurred in converting materials into finished goods, based on the normal production capacity.

Emission credits and allowances

Under the British Columbia (“BC”) low carbon fuel standard (“LCFS”), emission credits are issued for supplying or offering for sale fuels with a carbon intensity below the targets in British Columbia or for achieving certain capital project investment milestones under agreements with the BC government.

The emission credits obtained with renewable fuel production can be sold with the renewable fuel, sold separately, or used by the entity to offset its own carbon emissions. Such emission credits are held for sale in the ordinary course of business as inventory at cost and carried at the lower of cost or net realizable value. The Corporation recognizes revenue for renewable fuel inventory and associated emission credits generated, that is in the ordinary course of business, when it transfers control of the renewable fuel and the emission credits to the customer.

Emission credits granted to the Corporation under the British Columbia low carbon fuel standard for achieving certain capital project investment milestones are valued at fair value less costs to sell. The cost to sell is usually nominal. Fair value is determined based on market prices or forward contracted prices. When earned, the emission credits are recognized in inventory as held for sale. Subsequent to initial recognition, any changes to fair value less cost to sell are recorded in the Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss). Proceeds on sale are recorded within investing activities in the Consolidated Statements of Cash Flows.

Investments

The Corporation uses the equity method to account for its investment in RCC, over which it has joint control. Each investment is accounted for using the equity method. Equity investments are initially measured at cost and are adjusted for the Corporation’s proportionate share of earnings or losses. Equity investments are increased for contributions made and decreased for distributions received. The Corporation funds its portion of development, construction or capital expansion projects through capital contributions and classifies these contributions as cash used in investing activities in its Consolidated Statement of Cash Flows. The Corporation considers distributions received as a return on investment to the extent that the distribution was generated through operating results, and therefore classifies these distributions as cash flows from operating activities in its Consolidated Statement of Cash Flows. An equity method investment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. When such condition is deemed other than temporary, the carrying value of the investment is written down to its fair value, and an impairment charge is recorded in the Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss).

Government grants

Government grants are recognized where there is reasonable assurance that the Corporation will comply with the conditions and that the grant will be received. Grants related to income are presented in the Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) and are deducted in reporting the related expense. Grants related to assets are presented in the Consolidated Statement of Financial Position by deducting the grant from the carrying value of the associated asset.

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

Non-controlling interest

Non-controlling interest (“NCI”) represents the portion of equity ownership in a subsidiary not attributable to the Corporation’s shareholders. NCI is initially measured as the proportionate share of its interest in the subsidiary and is subsequently adjusted for the proportionate share of net income (loss) and comprehensive income (loss) attributable to the NCI, as well as any dividends paid to the NCI.

3. INVENTORY AND EMISSION CREDITS

The following summarizes the Corporation’s inventory:

	September 30, 2022		December 31, 2021	
Renewable feedstocks	\$	673	\$	-
Capital emissions credits		12,465		-
	\$	13,138	\$	-

Capital emissions credits are carried at fair value less cost to sell based on market prices or forward contracted prices. During the three and nine months ended September 30, 2022, the Corporation generated \$NIL and \$34.3 million of BC LCFS credits for achieving construction milestones on its renewable diesel and renewable hydrogen complex. During the three and nine months ended September 30, 2022, the Corporation sold BC LCFS credits to third parties for proceeds of \$11.5 million and \$22.7 million, respectively.

4. INVESTMENTS

The following table summarizes the Corporation’s investments:

	September 30, 2022		December 31, 2021	
Investment in RCC ⁽¹⁾	\$	24,611	\$	-
Investments at fair value		100		-
	\$	24,711	\$	-

(1) Accounted for by the equity method.

On April 4, 2022, the Corporation announced its strategic partnership in RCC, an Alberta based cattle feeding operation. Under the terms of its investment agreement, the Corporation is committed to investing \$30.0 million, in four equal installments, in exchange for a 50% ownership of RCC. At September 30, 2022, the Corporation has made \$22.5 million of installment payments and holds 43% of RCC’s outstanding common shares. The final \$7.5 million installment is due on December 31, 2022.

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

5. RIGHT-OF-USE ASSETS

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

		Rail cars		Field equipment		Total
COST						
Balance, May 11, 2021	\$	-	\$	-	\$	-
Acquisitions		24,211		198		24,409
Balance, December 31, 2021	\$	24,211	\$	198	\$	24,409
Additions		543		18		561
Balance, September 30, 2022	\$	24,754	\$	216	\$	24,970
ACCUMULATED DEPRECIATION						
Balance, May 11, 2021	\$	-	\$	-	\$	-
Depreciation		1,628		122		1,750
Balance, December 31, 2021	\$	1,628	\$	122	\$	1,750
Depreciation		3,547		80		3,627
Balance September 30, 2022	\$	5,175	\$	202	\$	5,377
NET BOOK VALUE						
December 31, 2021	\$	22,583	\$	76	\$	22,659
September 30, 2022	\$	19,579	\$	14	\$	19,593

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

		Plant and infrastructure		Assets under construction		Other		Total
COST								
Balance, May 11, 2021	\$	-	\$	-	\$	-	\$	-
Acquisitions		625,914		42,970		4,370		673,254
Additions		1,357		29,617		-		30,974
Completed projects		11,110		(11,110)		-		-
Balance, December 31, 2021	\$	638,381	\$	61,477	\$	4,370	\$	704,228
Additions		10,499		156,561		685		167,745
NCI contributions (note 11)		-		6,500		-		6,500
Capital emission credits awarded (note 3)		-		(34,320)		-		(34,320)
September 30, 2022	\$	648,880	\$	190,218	\$	5,055	\$	844,153
ACCUMULATED DEPRECIATION								
Balance, May 11, 2021	\$	-	\$	-	\$	-	\$	-
Depreciation		4,956		-		1		4,957
Balance, December 31, 2021	\$	4,956	\$	-	\$	1	\$	4,957
Depreciation		10,366		-		388		10,754
September 30, 2022	\$	15,322	\$	-	\$	389	\$	15,711
NET BOOK VALUE								
December 31, 2021	\$	633,425	\$	61,477	\$	4,369	\$	699,271
September 30, 2022	\$	633,558	\$	190,218	\$	4,666	\$	828,442

In July 2022, the Corporation received \$0.5 million of grant funding for achieving engineering design milestones on its proposed renewable natural gas facility. Additions are presented net of funding received.

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

7. BANK DEBT

The following table summarizes the Corporation's bank debt:

	September 30, 2022	December 31, 2021
Senior Credit Facility	\$ 110,143	\$ 60,000
RNG Credit Facility	15,550	-
Financing costs	(3,052)	(1,048)
Total bank debt	\$ 122,641	\$ 58,952
Current portion of bank debt, net of finance costs	15,222	-
Long term portion of bank debt, net of finance costs	107,419	58,952

Senior Credit Facility

The Corporation has a revolving credit facility (the "Senior Credit Facility") with a syndicate of banks. Total aggregate availability under the Corporation's Senior Credit Facility is \$150.0 million and matures on August 18, 2024. 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.

On September 22, 2022, the Senior Credit Facility was amended (the "amendment") to increase certain financial covenants. The amended financial covenants are calculated on a trailing-quarterly basis and include consolidated debt (being, the Senior Credit Facility and the RNG Credit Facility) to adjusted EBITDA of less than or equal to 4.0:1; first lien senior debt (being, the Senior Credit Facility but excluding the RNG Credit Facility) to adjusted EBITDA of less than or equal to 3.0:1; and an adjusted EBITDA to interest coverage ratio greater than or equal to 2.5:1. Upon the closing of the financing transaction disclosed in note 19, the amendment provided a further increase to the financial covenants, including consolidated debt to adjusted EBITDA of less than or equal to 4.5:1 and first lien senior debt to adjusted EBITDA of less than or equal to 3.5:1.

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, 2022, Tidewater Renewables was in compliance with its financial covenants, reporting consolidated debt to adjusted EBITDA ratio of 2.5:1 (December 31, 2021 – 1.5:1), first lien senior debt to adjusted EBITDA ratio of 2.2:1 (December 31, 2021 – 1.5:1) and adjusted EBITDA to interest coverage ratio of 10.0:1 (December 31, 2021 – 18.8:1).

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.

RNG Credit Facility

The Corporation, through a wholly owned subsidiary, has entered into a separate credit facility with a Canadian bank (the "RNG Credit Facility"). The RNG Credit Facility matures on September 29, 2023 and is secured by a first charge over the Corporation's equity investment in RCC and its ownership interest in RNG LP, as well as a subordinated charge over the Corporation's remaining assets.

Total aggregate availability under the RNG Credit Facility was \$26.3 million, of which \$18.8 million was available at September 30, 2022. The RNG Credit Facility can be drawn in Canadian dollars and bears interest at the agent bank's prime lending rate or Canadian Dollar Offered Rate rates, plus applicable margins. On October 24, 2022, the RNG Credit Facility was repaid and extinguished (note 19).

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

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. At September 30, 2022, the obligation was inflated using a rate of 1.75% (December 31, 2021 – 1.75%) and discounted using a credit-adjusted risk-free rate of 7.50% (December 31, 2021 – 7.50%).

The following table summarizes changes in the decommissioning obligations:

	September 30, 2022		December 31, 2021	
Balance, beginning of period	\$	1,171	\$	-
Acquisitions		-		1,129
Accretion		66		42
Balance, end of period	\$	1,237	\$	1,171

9. LEASE LIABILITIES

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

	September 30, 2022		December 31, 2021	
Balance, beginning of period	\$	22,912	\$	-
Acquisitions		-		24,409
Additions		561		-
Accretion		1,046		575
Lease payments		(4,394)		(2,147)
Foreign exchange re-measurement		1,677		75
Total lease liabilities	\$	21,802	\$	22,912
Current portion of lease liabilities		6,049		5,535
Long term lease liabilities		15,753		17,377

Undiscounted payments associated with lease liabilities as at September 30, 2022 are summarized below:

	Within one	After one year but not	More than	Total
	year	more than five years	five years	
Undiscounted lease payments	\$ 6,231	\$ 18,432	\$ -	\$ 24,663

As at September 30, 2022, the incremental borrowing rate used to measure lease liabilities was 6.50% (December 31, 2021 – 6.50%).

10. SHARE CAPITAL

a) Authorized

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

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

b) Issued

	September 30, 2022		December 31, 2021	
	Number of Shares (000s)	Amount	Number of Shares (000s)	Amount
Balance, beginning of period	34,712	\$ 512,483	-	\$ -
Issue of common shares – initial public offering	-	-	10,735	161,025
Issue of common shares – acquisitions	-	-	23,977	359,596
Share issuance costs (net of tax)	-	(8)	-	(8,138)
Balance, end of period	34,712	\$ 512,475	34,712	\$ 512,483

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 million common shares of the Corporation at a price of \$15.00 per common share for aggregate gross proceeds of \$150 million (the “Offering”). In connection with the Offering, the Corporation issued 23.9 million common shares to Tidewater Midstream as part of the consideration for certain acquired assets. On September 15, 2021, the underwriters exercised their over-allotment option, in part, to purchase an additional 0.7 million common shares at the Offering price of \$15.00 per common share for gross proceeds of \$11 million. 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.

11. NON-CONTROLLING INTEREST

On April 4, 2022, the Corporation entered into a limited partnership agreement (the “RNG LP”), with Rimrock RNG Inc. (“Rimrock”) and Rimrock Renewables Ltd., to build and evaluate renewable natural gas (“RNG”) facilities across North America. Upon execution of the limited partnership agreement, Rimrock contributed \$6.5 million of fixed assets for 50% of the limited partnership units of RNG LP. Rimrock Renewables Ltd., a company with nominal assets and no operations, is the general partner. Rimrock Renewables Ltd.’s common shares are owned 51% and 49% by the Corporation and Rimrock, respectively. As the general partner, Rimrock Renewables Ltd. has the power and authority over the RNG Facilities Partnership’s relevant operating activities.

12. REVENUE AND OPERATING EXPENSES

For the three and nine months ended September 30, 2022, and for the period from date of incorporation, May 11, 2021 to September 30, 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.

	Renewable Fuels		Renewable Natural Gas		Total
For the three months ended September 30, 2022					
Revenue	\$	16,766	\$	2,931	\$ 19,697
Operating expenses		7,179		963	8,142
For the nine months ended September 30, 2022					
Revenue	\$	48,772	\$	7,905	\$ 56,677
Operating expenses		19,806		2,195	22,001

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

For the three months ended September 30, 2021 and for the period from date of incorporation, May 11, 2021 to September 30, 2021		Renewable Fuels		Renewable Natural Gas		Total
Revenue	\$	5,089	\$	1,041	\$	6,130
Operating expenses		1,006		88		1,094

13. FINANCE COSTS AND OTHER

Finance costs and other is comprised of the following:

	For the three months ended September 30, 2022	For the three months ended September 30, 2021	For the nine months ended September 30, 2022	For the period from date of incorporation, May 11, 2021, to September 30, 2021
Interest on bank debt	\$ 2,161	\$ 221	\$ 4,363	\$ 221
Interest capitalized ⁽¹⁾	(1,000)	-	(2,200)	-
Total interest expense	1,161	221	2,163	221
Realized foreign exchange loss	299	-	166	-
Unrealized foreign exchange loss ⁽²⁾	1,321	189	1,677	189
Revaluation of capital emission credits	(875)	-	(875)	-
Total finance costs and other before accretion	\$ 1,906	\$ 410	\$ 3,131	\$ 410
Unwinding of discount on decommissioning obligations	22	21	66	21
Unwinding of discount on bank debt	428	50	638	50
Unwinding of discount on lease liabilities	341	236	1,046	236
Accretion	791	307	1,750	307
Total finance costs and other	\$ 2,697	\$ 717	\$ 4,881	\$ 717

(1) For the three and nine months ended September 30, 2022, interest was capitalized at an annualized weighted average capitalization rate of approximately 5.9% and 7.0% on funds borrowed, respectively.

(2) 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:

September 30, 2022	Stock Options	RSUs	DSUs	Total
Outstanding, January 1, 2022	182	152	15	349
Granted	266	521	30	817
Forfeited	(5)	(5)	-	(10)
Outstanding, September 30, 2022	443	668	45	1,156
Exercisable, September 30, 2022	-	14	-	14

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

September 30, 2021	Stock Options	RSUs	DSUs	Total
Outstanding, May 11, 2021	-	-	-	-
Granted	-	41	15	56
Forfeited	-	-	-	-
Outstanding, September 30, 2021	-	41	15	56
Exercisable, September 30, 2021	-	-	-	-

b) PSU Plan

The following table summarizes the performance share units outstanding:

	Nine months ended September 30,	
	2022	2021
Balance, beginning of period	\$ 320	\$ -
Granted	236	-
Forfeited	(7)	-
Balance, end of period	\$ 549	\$ -

c) Share-Based Compensation Expense

Share-based compensation is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Stock options	\$ 229	\$ -	\$ 555	\$ -
Restricted Share Units (RSUs)	645	29	1,362	29
Deferred Share Units (DSUs)	175	226	353	226
Performance Share Units (PSUs)	74	-	207	-
Share-based compensation expense	\$ 1,123	\$ 255	\$ 2,477	\$ 255

15. NET INCOME (LOSS) PER SHARE

	Three months ended September 30, 2022			Three months ended September 30, 2021		
	Net loss	Common shares (000s)	Net income per share	Net income	Common shares (000s)	Net loss per share
Net income (loss) attributable to shareholders - basic	\$ (10,067)	34,712	\$ (0.29)	\$ 3,418	15,964	\$ 0.21
Dilutive effect of share awards	-	-	-	-	18	0.00
Net income (loss) attributable to shareholders - diluted	\$ (10,067)	34,712	\$ (0.29)	\$ 3,418	15,982	\$ 0.21

For the three months ended September 30, 2022, 0.9 million share awards were anti-dilutive (for the three months ended September 30, 2021 – NIL).

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

	Nine months ended September 30, 2022			For the period from date of incorporation, May 11, 2021, to September 30, 2021		
	Net income	Common shares (000s)	Net income per share	Net loss	Common shares (000s)	Net loss per share
Net income attributable to shareholders - basic	\$ 11,810	34,712	\$ 0.34	\$ 2,683	10,343	\$ 0.26
Dilutive effect of share awards	-	112	-	-	12	0.00
Net income attributable to shareholders - diluted	\$ 11,810	34,824	\$ 0.34	\$ 2,683	10,355	\$ 0.26

For the nine months ended September 30, 2022, 0.4 million share awards were anti-dilutive (for the period from date of incorporation, May 11, 2021 to September 30, 2021 – NIL).

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Accounts receivable	\$ (2,440)	\$ (5,654)	\$ (2,293)	\$ (5,654)
Prepaid expenses and other	(1,069)	-	(881)	-
Inventory	(489)	-	(673)	-
Accounts payable and accrued liabilities	(5,590)	(1,181)	(977)	(181)
Change in non-cash working capital from operating activities	\$ (9,588)	\$ (6,835)	\$ (4,824)	\$ (5,835)

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Accounts payable and accrued liabilities	\$ 37,144	\$ 3,374	\$ 74,015	\$ 3,374
Change in non-cash working capital from investing activities	\$ 37,144	\$ 3,374	\$ 74,015	\$ 3,374

c) Interest paid

During the three and nine months ended September 30, 2022, total interest and financing charges paid, prior to capitalization, was \$4.0 million (for the three months ended September 30, 2021- \$0.2 million) and \$7.9 million (for the period from date of incorporation, May 11, 2021 to September 30, 2021- \$0.2 million), respectively.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board of Directors have 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.

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

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 capital emissions credits held for trading and derivative contracts, which includes exchange-cleared commodity derivatives and over-the-counter commodity derivatives that are traded in observable markets.

At September 30, 2022, 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.

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, 2022 and December 31, 2021 is as follows:

	September 30, 2022		December 31, 2021	
Cash	\$	1,382	\$	1,022
Accounts receivable		9,316		7,023
Derivative contracts – current		9,184		543
Derivative contracts – long term		8,090		-
	\$	27,972	\$	8,588

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.

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

The Corporation's accounts receivable as at September 30, 2022 relate to contractual agreements. At September 30, 2022, the majority of all amounts owing to the Corporation were due from its controlling shareholder, Tidewater Midstream. Revenues earned from Tidewater Midstream for the three and nine months ended September 30, 2022 accounted for approximately 95% of the Corporation's revenues, totaling \$18.9 million (September 30, 2021 - \$6.1 million) and \$53.8 million (September 30, 2021 - \$6.1 million), respectively. At September 30, 2022, 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, 2022, lifetime expected credit losses for accounts receivable outstanding were \$0.2 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 only entering into contracts 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.

The following details the contractual maturities of the Corporation's financial liabilities as at September 30, 2022 and December 31, 2021:

	September 30, 2022		December 31, 2021	
	Less than one year	Greater than one year	Less than one year	Greater than one year
Accounts payable and accrued liabilities	\$ 74,818	\$ -	\$ 1,780	\$ -
Derivative contracts	7,848	19,110	-	2,095
Lease liabilities ⁽¹⁾	6,231	18,432	5,699	20,799
Bank debt ⁽²⁾	15,550	110,143	-	60,000
	\$ 104,447	\$ 147,685	\$ 7,479	\$ 82,894

(1) Amounts represent the expected undiscounted cash payments related to leases.

(2) Amounts represent undiscounted principal only and exclude accrued interest.

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.

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

i) 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, 2022, the Corporation had variable rate bank debt (note 7) totaling \$122.6 million (September 30, 2021 – \$40.9 million) and therefore a 1% change in the interest rate on bank debt would have had an after-tax impact of \$0.7 million on net income for the nine months ended September 30, 2022 (for the period from date of incorporation, May 11, 2021 to September 30, 2021 - \$0.1 million).

ii) 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, 2022, working capital and derivative contract balances denominated in USD were \$2.9 million (September 30, 2021 - \$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 \$0.1 million for the nine months ended September 30, 2022 (for the periods from incorporation on May 11, 2021, to September 30, 2021 - \$0.2 million).

iii) 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 \$26.0 million for the nine months ended September 30, 2022 (for the period from date of incorporation, May 11, 2021, to September 30, 2021 - \$15.5 million).

18. RELATED PARTY TRANSACTIONS

The Corporation has entered into various take-or-pay and shared service agreements with its controlling shareholder Tidewater Midstream. During three and nine months ended September 30, 2022, the Corporation incurred the following related party transactions in connection with these agreements:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 18,856	\$ 6,057	\$ 53,846	\$ 6,057
Operating expenses	\$ 6,494	\$ 1,094	\$ 18,220	\$ 1,094
General and administrative	\$ 753	\$ 206	\$ 1,336	\$ 206
Realized loss (gain) on derivative contracts	\$ 44	\$ (500)	\$ (7,862)	\$ (500)
Unrealized gain on derivative contracts	\$ (1,744)	\$ (2,770)	\$ (21,993)	\$ (2,770)

At September 30, 2022, the Corporation has \$7.5 million of accounts receivable (December 31, 2021 - \$7.0 million) and \$35.1 million of accounts payable and accrued liabilities (December 31, 2021 - \$NIL) due from/ to Tidewater Midstream.

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2022

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

19. SUBSEQUENT EVENT

On October 24, 2022, the Corporation announced the closing of a \$150.0 million five-year senior secured second lien credit facility (the “AIMCo Facility”) through an affiliate of Alberta Investment Management Corporation (“AIMCo”). Upon closing, the AIMCo Facility was drawn down by way of a single advance with net proceeds reflecting a 5% original issue discount.

The AIMCo Facility initially bears interest of 6.50% per annum and increase by 37.5 basis points in year four and year five and is subject to certain inflation escalators.

In conjunction with entering into the AIMCo Facility, the Corporation issued 3.375 million warrants to AIMCo (the “AIMCo Warrants”). Each AIMCo Warrant entitles the holder to purchase one common share (“Common Share”) of Tidewater Renewables at a price per share of \$14.84, for a term of five years. The AIMCo Warrants also contain certain features which will reduce the exercise price of the warrants if the Canadian consumer price index is greater than 4% per annum.

AIMCo has the option to exercise its warrants for cash (versus Common Shares) in connection with a cashless exercise. If the Corporation is unable or not permitted to make some or all of such a cash payment, then Tidewater Renewables will assist AIMCo in the sale of the Common Shares issued and will be obligated to pay certain market slippage costs of up to 15% plus broker fees and related costs in respect of the Common Shares sold.

The Corporation used a portion of the proceeds from the AIMCo Facility to repay and extinguish the RNG Credit Facility.