



**TIDEWATER**  
Midstream and Infrastructure Ltd.

Condensed Interim Consolidated Financial Statements (unaudited)

For the three and nine-month periods ended September 30, 2017

**Tidewater Midstream and Infrastructure Ltd.**  
**Condensed Interim Consolidated Statement of Financial Position**  
**(unaudited)**

(all tabular amounts in thousands of Canadian dollars)

<b>As at</b>	Notes	<b>September 30, 2017</b>	December 31, 2016
<b>Assets</b>			
Current			
Cash		\$ 3,878	\$ 8,010
Accounts receivable		41,053	36,146
Prepaid expenses and other		16,332	7,357
		<b>61,263</b>	51,513
Investments		524	-
Property, plant and equipment	4	630,286	528,917
<b>Total assets</b>		<b>\$ 692,073</b>	<b>\$ 580,430</b>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		\$ 35,158	\$ 42,884
Derivative contracts		642	1,530
Dividend payable	7	3,290	2,846
Incentive compensation	10	5,767	3,294
Bank debt		-	50,000
		<b>44,857</b>	100,554
Bank debt	5	89,500	-
Holdback consideration liability		-	698
Incentive compensation	10	939	1,486
Derivative contracts		528	181
Deferred tax liabilities		30,822	25,934
Decommissioning obligation	6	81,436	76,660
Total liabilities		<b>248,082</b>	205,513
<b>Shareholders' Equity</b>			
Share capital	7	431,510	365,612
Employee share reserve		1,217	526
Retained earnings		11,264	8,779
Total shareholders' equity		<b>443,991</b>	374,917
<b>Total liabilities and shareholders' equity</b>		<b>\$ 692,073</b>	<b>\$ 580,430</b>

Commitments (note 13)

Subsequent events (note 16)

See the accompanying notes to the condensed interim consolidated financial statements

Approved by the Board:

"Signed" Joel MacLeod, Director

"Signed" Doug Fraser, Director

**Tidewater Midstream and Infrastructure Ltd.**  
**Condensed Interim Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss)**  
**(unaudited)**

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
<b>Revenue</b>	8	\$ 53,020	\$ 27,028	\$ 158,872	\$ 71,064
<b>Expenses</b>					
Operating expenses	8	35,926	16,398	108,254	41,537
General and administrative		2,047	1,266	6,331	3,564
Stock-based compensation	10	2,054	2,357	3,945	3,263
Depreciation	4	6,357	4,115	17,802	11,300
Total expenses		46,384	24,136	136,332	59,664
Operating income		6,636	2,892	22,540	11,400
Other expenses (income)					
Gain on holdback		-	105	(123)	(5,381)
Finance costs (income) and other	9	4,909	(25)	4,240	(61)
Transaction costs		264	537	1,095	3,716
Total other expenses (income) before tax		5,173	617	5,212	(1,726)
Earnings before income tax		1,463	2,275	17,328	13,126
Deferred income tax expense (recovery)		1,501	(99)	4,977	1,676
Net income (loss) and comprehensive income (loss) for the period		\$ (38)	\$ 2,374	\$ 12,351	\$ 11,450
<b>Earnings (loss) per share – basic</b>	11	\$ (0.00)	\$ 0.01	\$ 0.04	\$ 0.05
<b>Earnings (loss) per share – diluted</b>	11	\$ (0.00)	\$ 0.01	\$ 0.04	\$ 0.04

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

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

(all tabular amounts in thousands of Canadian dollars)

	Notes	Share capital	Employee share reserve	Retained earnings	Total Shareholders' Equity
Balance at December 31, 2015		\$ 203,910	\$ (66)	\$ 4,960	\$ 208,804
Issue of common shares		165,224	-	-	165,224
Share issuance costs		(3,485)	-	-	(3,485)
Equity reserve		-	184	-	184
Net income		-	-	11,450	11,450
Dividends declared		-	-	(8,463)	(8,463)
<b>Balance at September 30, 2016</b>		<b>\$ 365,649</b>	<b>\$ 118</b>	<b>\$ 7,947</b>	<b>\$ 373,714</b>

	Notes	Share capital	Employee share reserve	Retained earnings	Total Shareholders' Equity
Balance at December 31, 2016		\$ 365,612	\$ 526	\$ 8,779	\$ 374,917
Issue of common shares	7	69,766	-	-	69,766
Share issuance costs (net of tax)	7	(3,868)	-	-	(3,868)
Equity reserve		-	691	-	691
Net income		-	-	12,351	12,351
Dividends declared	7	-	-	(9,866)	(9,866)
<b>Balance at September 30, 2017</b>		<b>\$ 431,510</b>	<b>\$ 1,217</b>	<b>\$ 11,264</b>	<b>\$ 443,991</b>

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

**Tidewater Midstream and Infrastructure Ltd.**  
**Condensed Interim Consolidated Statement of Cash Flows**  
**(unaudited)**

(all tabular amounts in thousands of Canadian dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
<b>Cash provided by (used in):</b>					
<b>Operating activities</b>					
Income (loss) for the period		\$ (38)	\$ 2,374	\$ 12,351	\$ 11,450
Adjustments:					
Finance costs (income) and other		3,514	104	766	(70)
Depreciation expense	4	6,357	4,115	17,802	11,300
Loss (gain) on holdback		-	105	-	(5,381)
Stock-based compensation expense		1,614	2,097	2,807	2,514
Deferred income tax expense (recovery)		1,501	(99)	4,977	1,676
Decommissioning costs incurred	6	(416)	-	(1,600)	-
Changes in non-cash working capital	12	(11,795)	434	(8,470)	(5,848)
<i>Net cash provided by operating activities</i>		<b>737</b>	9,130	<b>28,633</b>	15,641
<b>Financing activities</b>					
Proceeds from issuance of common shares	7	-	-	69,001	80,500
Share issuance costs	7	(3)	(9)	(3,956)	(4,774)
Finance costs		-	(292)	-	(797)
Payment of dividends		(3,289)	(2,846)	(9,423)	(7,376)
Advance of bank debt	5	24,500	-	39,500	-
Payment of bank debt		-	-	-	(30,803)
Changes in non-cash working capital	12	-	45	-	(45)
<i>Net cash provided by (used in) financing activities</i>		<b>21,208</b>	(3,102)	<b>95,122</b>	36,705
<b>Investing activities</b>					
Cash paid on acquisitions	3	-	(11,000)	(16,000)	(40,848)
Additions to property, plant and equipment	4	(25,671)	(9,465)	(98,225)	(16,251)
Purchase of investments		-	-	(524)	-
Cash paid for holdback settlement		-	-	-	(2,777)
Change in restricted cash		-	-	-	8,036
Changes in non-cash working capital	12	5,039	2,352	(13,138)	4,066
<i>Net cash used in investing activities</i>		<b>(20,632)</b>	(18,113)	<b>(127,887)</b>	(47,774)
<b>Increase (decrease) in cash</b>		<b>1,313</b>	(12,085)	<b>(4,132)</b>	4,572
Cash at beginning of period		2,565	17,029	8,010	372
<b>Cash at end of period</b>		<b>\$ 3,878</b>	4,944	<b>\$ 3,878</b>	\$ 4,944

See the accompanying notes to the condensed interim consolidated financial statements

# Tidewater Midstream and Infrastructure Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2017

All tabular amounts expressed in thousands of Canadian dollars, except share and per share information

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### 1. REPORTING ENTITY

Tidewater's business objective is to build a diversified midstream and infrastructure company in the North American Natural Gas and Natural Gas Liquid ("NGL") space. Its strategy is to profitably grow and create shareholder value through the acquisition and development of oil and gas infrastructure. The Corporation's principal place of business is Suite 1500, 250 – 2<sup>nd</sup> Street SW, Calgary, Alberta, Canada, T2P 0C1.

Tidewater operates its vertically integrated business through a number of subsidiaries including Tidewater Propane Inc., Tidewater Montney Infrastructure Corp., Tidewater Logistics Ltd. and Tidewater Pipelines Ltd.

Tidewater's common shares are publicly traded on the TSX Venture Exchange under the symbol "TWM.V".

### 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 and for the year ended December 31, 2016. These condensed interim consolidated financial statements as at September 30, 2017 and for the three and nine-months ended September 30, 2017 and 2016 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 and for the period ended December 31, 2016.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 13, 2017.

#### b) Future Accounting Pronouncements

##### i) IFRS 15, "Revenue from Contracts with Customers"

IFRS 15, "Revenue from Contracts with Customers" is effective January 1, 2018 and will supersede IAS 11 and IAS 18 (and related interpretations including IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). The new standard moves away from a revenue recognition model based on an earnings process to an approach that is based on transfer of control of a good or service to a customer. The new standard also requires disclosures on the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. Tidewater is currently in the process of reviewing its existing contracts to assess the impact, if any, that the adoption of IFRS 15 will have on the Corporation's financial statements and note disclosure.

##### ii) IFRS 16, "Leases"

IFRS 16, "Leases" provides a single lease accounting model for lessees, which requires the recognition of most leases as finance leases on the balance sheet. This will result in the recognition of a lease liability and a corresponding recognition of a leased asset called right-of-use asset. On the statement of net earnings and comprehensive income, lease expense will be recognized and will consist of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. Finance lease exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items. For lessors, the accounting treatment remains the same which provides a lessor the choice of classifying a lease as either a finance or operating lease. Tidewater will be applying IFRS 16 on its effective date of January 1, 2019. The Corporation is currently evaluating the impact of the standard on its financial statements.

## Tidewater Midstream and Infrastructure Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2017

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### 3. STRATEGIC ACQUISITIONS

During the nine-month period ended September 30, 2017, the Corporation completed the following strategic acquisitions:

**a) Deep Cut Extraction Plant Acquisition**

On May 11, 2017, the Corporation closed an acquisition of a 70 MMcf/d deep cut extraction facility and 300 km of NGL pipelines directly connected to Tidewater's existing Edmonton infrastructure for total cash consideration of \$6 million (the "Deep Cut Extraction Plant Acquisition"). The acquisition is subject to ordinary conditions including waiver of all rights of first refusal.

The acquisition has been accounted for as a business combination in accordance with IFRS 3 with fair value of the assets and liabilities acquired at the date of acquisition summarized below:

**Consideration for the acquisition:**

Cash paid	\$	6,000
Total consideration	\$	6,000

**Allocation of purchase price:**

Gas processing facilities and infrastructure	\$	20,693
Decommissioning obligation		(14,693)
Total net assets acquired	\$	6,000

The fair values 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.

**b) North East British Columbia ("NEBC") Acquisition**

Tidewater entered into an agreement with a related party to acquire a non-operated 40% working interest in a 30 MMcf/d sour, shallow-cut gas processing facility in the Parkland area of NEBC and an 80 km, cross-border sales gas pipeline in the Cordova area of NEBC, for total cash consideration of \$10 million (the "NEBC Acquisition"). The assets from the NEBC Acquisition are in a new core area for Tidewater, within the heart of the Montney play near numerous pipeline egress options for NGL and natural gas connectivity and access to rail.

The acquisition has been accounted for as a business combination in accordance with IFRS 3 with fair value of the assets and liabilities acquired at the date of acquisition summarized below:

**Consideration for the acquisition:**

Cash paid	\$	10,000
Total consideration	\$	10,000

**Allocation of purchase price:**

Gas processing facilities and infrastructure	\$	10,398
Decommissioning obligation		(398)
Total net assets acquired	\$	10,000

The fair values 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 Midstream and Infrastructure Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2017

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#### 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

	Plant and infrastructure	Other	Total
<b>COSTS</b>			
Balance, January 1, 2016	\$ 258,422	\$ 9,408	\$ 267,830
Acquisitions	411,219	-	411,219
Costs derecognized in step acquisition	(180,021)	-	(180,021)
Additions	9,928	3,799	13,727
Assets under construction	35,829	-	35,829
Decommissioning asset – change in estimate	(9,796)	-	(9,796)
Balance, December 31, 2016	\$ 525,581	\$ 13,207	\$ 538,788
Acquisitions (note 3)	31,091	-	31,091
Additions	60,683	10,992	71,675
Assets under construction	27,451	-	27,451
Decommissioning asset – change in estimate	(11,046)	-	(11,046)
Balance, September 30, 2017	\$ 633,760	\$ 24,199	\$ 657,959
<b>ACCUMULATED DEPRECIATION</b>			
Balance, January 1, 2016	\$ 3,413	\$ 179	\$ 3,592
Depreciation	13,103	864	13,967
Accumulated depreciation derecognized in step acquisition	(7,688)	-	(7,688)
Balance, December 31, 2016	\$ 8,828	\$ 1,043	\$ 9,871
Depreciation	16,683	1,119	17,802
Balance, September 30, 2017	\$ 25,511	\$ 2,162	\$ 27,673
Carrying amount, December 31, 2016	\$ 516,753	\$ 12,164	\$ 528,917
Carrying amount, September 30, 2017	\$ 608,249	\$ 22,037	\$ 630,286

#### 5. BANK DEBT

During the nine-month period ended September 30, 2017, the Corporation increased its Syndicated Credit Facility from \$100 million to \$160 million. The Corporation's \$20 million Operated Credit Facility remained unchanged for total available credit under both Credit Facilities of \$180 million.

Advances on the Credit Facilities may be made by way of direct advances, bankers' acceptances, or standby letters of credit/guarantees. The Credit Facilities bear interest at the Bank's prime rate on bankers' acceptance discount rates plus an applicable margin of 100bps to 275bps on prime rate loans, 200bps to 375bps on stamping fees related to banker's acceptances, and 45bps to 85bps for standby fees as determined by reference to the Corporation's consolidated debt to EBITDA ratio (as defined in the Credit Facility Agreement). Interest on the Credit Facilities is due monthly. As at September 30, 2017, the amount drawn under the Corporation's Credit Facilities was \$89.5 million (December 31, 2016 - \$50 million). During the nine-month period ended September 30, 2017, the maturity date of the Credit Facilities was extended to March 24, 2020.

The Credit Facilities are secured by a \$250 million demand debenture with a floating charge over all the assets of the Corporation and the Corporation is required to maintain certain financial ratios calculated as defined in the Credit Facility Agreement including a consolidated debt/EBITDA of less than or equal to 3:1, consolidated debt to capitalization ratio of less than or equal to 0.50:1, and a fixed charge coverage ratio greater than or equal to 1.15:1. At September 30, 2017, the Corporation was in compliance with its financial covenants reporting debt to EBITDA of 1.67 (December 31, 2016 - 1.33), consolidated debt to capitalization of 0.17 (December 31, 2016 - 0.11), and fixed charge coverage of 3.54 (December 31, 2016 - 3.00).

At September 30, 2017, the Corporation had \$4.5 million letters of credit issued (December 31, 2016 – \$1.2 million).

## Tidewater Midstream and Infrastructure Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2017

All tabular amounts expressed in thousands of Canadian dollars, except share and per share information

#### 6. DECOMMISSIONING OBLIGATION

The Corporation's decommissioning obligations relate to the acquisitions of various gas processing facilities and related pipelines. The total decommissioning obligation is estimated based on the Corporation's net ownership interest in the facilities and related pipelines, estimated costs to abandon and reclaim the facilities and related pipelines and the estimated timing of the costs to be incurred in future years. At September 30, 2017, the estimated undiscounted cash flows required to settle the obligation totaled approximately \$115 million (December 31, 2016 - \$99.6 million). The obligation was discounted using a risk-free rate of 2.47% (December 31, 2016 - 2.33%) per annum at September 30, 2017 based on expected timing of abandonment. These obligations are expected to be settled based on the economic lives of the underlying assets, which currently extend up to 60 years into the future.

The following table summarizes changes in the decommissioning obligations:

	Nine months ended September 30, 2017		Year ended December 31, 2016	
Decommissioning obligations - opening	\$	76,660	\$	29,658
Acquisitions		15,993		81,866
Decommissioning obligation derecognized in step acquisition		-		(26,927)
Decommissioning costs incurred		(1,600)		-
Change in estimate		(11,046)		(9,796)
Accretion		1,429		971
Change in estimate and accretion derecognized in step acquisition		-		888
Decommissioning obligations - closing	\$	81,436	\$	76,660

#### 7. SHARE CAPITAL

##### a) Authorized

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

##### b) Issued and outstanding common shares

	Number of Shares (000s)		Amount	
Balance, December 31, 2015		168,065	\$	203,910
Issue of common shares – AltaGas acquisition		43,704		63,807
Issue of common shares – public offering		57,500		80,500
Issue of common shares – holdback settlement		7,408		10,519
Issue of common shares – Montney Egress Hub (Pipestone) acquisition		7,481		10,398
Share issuance costs (net of tax)				(3,522)
Balance, December 31, 2016		284,158	\$	365,612

## Tidewater Midstream and Infrastructure Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

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	Number of Shares (000s)		Amount
Issue of common shares – public offering	44,231	\$	69,001
Issue of common shares – holdback settlement	439		575
Issue of common shares – long term incentive plan	145		190
Share issuance costs (net of tax)			(3,868)
<b>Balance, September 30, 2017</b>	<b>328,973</b>	<b>\$</b>	<b>431,510</b>

During the three-month period ended March 31, 2017, the Corporation issued 44.2 million common shares at \$1.56 per share on a bought deal basis for gross proceeds of approximately \$69 million.

The Corporation released 438,736 common shares at a price of \$1.31 per common share during the three-month period ended June 30, 2017. The share issuance is related to the settlement of the holdback consideration associated with the retail propane business acquired on October 22, 2015.

Additionally, the Corporation issued 145,317 common shares at an average price of \$1.30 per share during the nine-month period ended September 30, 2017 related to the exercise of vested restricted share units (RSUs).

During the three-month period ended March 31, 2017, the Corporation declared a dividend of \$0.01 (three-month period ended March 31, 2016 - \$0.01) per common share payable to shareholders of record on March 31, 2017. The total amount of the dividend at March 31, 2017 was \$3.3 million (three-month period ended March 31, 2016 - \$2.8 million) and was paid on April 28, 2017.

During the three-month period ended June 30, 2017, the Corporation declared a dividend of \$0.01 (three-month period ended June 30, 2016 - \$0.01) per common share payable to shareholders of record on June 30, 2017. The total amount of the dividend was \$3.3 million (June 30, 2016 - \$2.8 million) and was paid on July 31, 2017.

During the three-month period ended September 30, 2017, the Corporation declared a dividend of \$0.01 (three-month period ended September 30, 2016 - \$0.01) per common share payable to shareholders of record on September 29, 2017. The total amount of the dividend was \$3.3 million (September 30, 2016 - \$2.8 million) and was paid on October 31, 2017.

## 8. REVENUE AND OPERATING EXPENSES

For the three and nine-month periods ended September 30, 2017 and 2016 the Corporation operated in only one operating segment: midstream and infrastructure, as the chief operating decision maker reviews operating results at this level to assess financial performance and make resource allocation decisions.

Revenue and operating expense categories associated with the midstream and infrastructure operating segment include:

a) *Gathering, processing and transportation*

Gathering, processing and transportation relates to raw gas gathering systems, processing plants and pipelines.

b) *NGL Marketing and Extraction*

NGL Marketing and Extraction relates to liquids extraction facilities and marketing of NGLs to various customers.

c) *Other*

Other activities relate to the production of natural gas and NGLs and the retail propane and logistics business.

The significant categories of revenue and expenses recognized during the three and nine months ended September 30, 2017 and 2016 include the following:

**Tidewater Midstream and Infrastructure Ltd.****Notes to the Condensed Interim Consolidated Financial Statements****For the three and nine-month periods ended September 30, 2017****All tabular amounts expressed in thousands of Canadian dollars, except share and per share information**

	Gathering, processing and transportation	NGL Marketing and Extraction	Other	Total
<b>Three months ended September 30, 2017</b>				
Revenue (before intercompany eliminations)	\$ 27,852	\$ 25,774	\$ 9,400	\$ 63,026
Intercompany eliminations	(5,761)	(465)	(3,780)	(10,006)
Revenue from external customers	\$ 22,091	25,309	5,620	53,020
<hr/>				
Operating expenses (before intercompany eliminations)	\$ 13,127	\$ 26,650	\$ 6,155	\$ 45,932
Intercompany eliminations	-	(6,361)	(3,645)	(10,006)
Operating expenses (after intercompany eliminations)	\$ 13,127	\$ 20,289	\$ 2,510	\$ 35,926
<hr/>				
<b>Three months ended September 30, 2016</b>				
Revenue (before intercompany eliminations)	\$ 16,809	\$ 6,553	\$ 4,326	\$ 27,688
Intercompany eliminations	(660)	-	-	(660)
Revenue from external customers	\$ 16,149	\$ 6,553	\$ 4,326	\$ 27,028
<hr/>				
Operating expenses (before intercompany eliminations)	\$ 8,317	\$ 7,246	\$ 1,495	\$ 17,058
Intercompany eliminations	-	(660)	-	(660)
Operating expenses (after intercompany eliminations)	\$ 8,317	\$ 6,586	\$ 1,495	\$ 16,398
<hr/>				
<b>Nine months ended September 30, 2017</b>				
Revenue (before intercompany eliminations)	\$ 78,429	\$ 75,218	\$ 29,598	\$ 183,245
Intercompany eliminations	(14,829)	(2,451)	(7,093)	(24,373)
Revenue from external customers	\$ 63,600	72,767	22,505	158,872
<hr/>				
Operating expenses (before intercompany eliminations)	\$ 36,905	\$ 75,964	\$ 19,758	\$ 132,627
Intercompany eliminations	-	(13,225)	(11,148)	(24,373)
Operating expenses (after intercompany eliminations)	\$ 36,905	\$ 62,739	\$ 8,610	\$ 108,254

## Tidewater Midstream and Infrastructure Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

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<b>Nine months ended September 30, 2016</b>	Gathering, processing and transportation	NGL Marketing and Extraction	Other	Total
Revenue (before intercompany eliminations)	\$ 52,050	\$ 13,015	\$ 7,878	\$ 72,943
Intercompany eliminations	(1,879)	-	-	(1,879)
Revenue from external customers	\$ 50,171	\$ 13,015	\$ 7,878	\$ 71,064
Operating expenses (before intercompany eliminations)	\$ 24,223	\$ 14,113	\$ 5,080	\$ 43,416
Intercompany eliminations	-	(1,879)	-	(1,879)
Operating expenses (after intercompany eliminations)	\$ 24,223	\$ 12,234	\$ 5,080	\$ 41,537

## 9. FINANCE COSTS (INCOME) AND OTHER

Finance costs (income) and other is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Finance fees	\$ 855	\$ 68	\$ 2,310	\$ 308
Accretion on decommissioning obligation	533	256	1,429	664
Gain on investment in marketable securities	-	(425)	-	(1,630)
Loss (gain) on commodity contract	2,835	(18)	(651)	99
Interest on bank debt	51	32	317	297
Other	635	62	835	201
Finance costs (income) and other	\$ 4,909	\$ (25)	\$ 4,240	\$ (61)

## 10. SHARE-BASED PAYMENTS

For the three and nine-month periods ended September 30, 2017, the Corporation recorded stock-based compensation expense of \$2.1 million (three-month period ended September 30, 2016 - \$2.4 million) and \$3.9 million (nine-month period ended September 30, 2016 - \$3.3 million) respectively.

### a) Stock Options

During the nine-month period ended September 30, 2017, the Corporation's Board of Directors approved the issuance of stock options to directors, officers, employees and consultants of the Corporation for a total approved issuance of approximately 7.5 million stock options of which 6.9 million have been granted.

A summary of the stock options granted and outstanding is as follows:

	Outstanding options	Weighted average exercise price
Balance, December 31, 2016	4,079,500	\$ 1.44
Granted	2,824,000	1.38
Outstanding, September 30, 2017	6,903,500	\$ 1.42

## Tidewater Midstream and Infrastructure Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2017

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For the three and nine-month periods ended September 30, 2017, the stock-based compensation expense relating to stock options was \$0.3 million (three-month period ended September 30, 2016 – \$0.5 million) and \$0.9 million (nine-month period ended September 30, 2016 - \$0.7 million) respectively.

The fair value of the total options granted is estimated at the date of grant using the Black-Scholes Option Pricing Model, including the following assumptions:

	September 30, 2017
Volatility factor of expected market price (%)	70%
Weighted average risk-free interest rate (%)	0.80%
Weighted average expected life in years	3.88
Weighted average expected annual dividend per share (%)	4.00%
Weighted average fair value per option (\$)	\$ 0.54
Weighted average forfeiture rate (%)	0.00%

#### b) Restricted Share Unit (RSU) Plan

During the nine-month period ended September 30, 2017, the Corporation's Board of Directors approved an issuance of RSUs to directors, officers, employees and consultants of the Corporation for a total approved issuance of approximately 9.3 million RSUs of which 9.2 million have been granted.

A summary of the restricted share units issued and outstanding is as follows:

	Number of RSUs
Outstanding, December 31, 2016	5,569,000
Granted	3,660,623
Exercised	(359,101)
Outstanding, September 30, 2017	8,870,522
Exercisable, September 30, 2017	2,463,686

For the three and nine-month periods ended September 30, 2017, the stock-based compensation expense relating to RSUs was \$1.5 million (three months ended September 30, 2016 - \$1.7 million) and \$2.4 million (nine-month period ended September 30, 2016 - \$2.3 million) respectively.

#### c) Performance Share Unit (PSU) Plan

For the nine-month period ended September 30, 2017, the Corporation's Board of Directors approved the issuance of PSUs, valued at \$0.6 million (nine-month period ended September 30, 2016 – \$0.7 million) of which \$0.6 million (nine-month period ended September 30, 2016 - \$0.5 million) were granted.

The following table summarizes the PSUs outstanding:

	PSUs Outstanding
Balance, December 31, 2016	\$ 879
Granted	620
Balance, September 30, 2017	\$ 1,499

The PSUs issued to participants are held by the plan trustee and have been recorded as an employee share reserve. During the three and nine-month periods ended September 30, 2017, the stock-based compensation expense relating to PSUs was \$0.2 million (three-month period ended September 30, 2016 – \$0.2 million) and \$0.3 million (nine-month period ended September 30, 2017 - \$0.2 million) respectively.

## Tidewater Midstream and Infrastructure Ltd.

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#### d) Employee Stock Purchase Plan (ESPP)

During the three and nine-month periods ended September 30, 2017, the stock based compensation expense relating to the ESPP was \$0.1 million (three-month period ended September 30, 2016 – \$18,519) and \$0.3 million (nine-month period ended September 30, 2016 – \$18,519).

#### 11. EARNINGS (LOSS) PER SHARE

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Net income (loss)	Common shares (000s)	Net income (loss) per share	Net income	Common shares (000s)	Net income per share
Net income (loss) – basic	\$ (38)	328,961	\$ (0.00)	\$ 2,374	283,502	\$ 0.01
Dilutive effect of share awards	-	8,910	-	-	7,600	-
Net income (loss) - diluted	\$ (38)	337,871	\$ (0.00)	\$ 2,374	291,102	\$ 0.01

For the three-month period ended September 30, 2017, 5.5 million share awards were anti-dilutive (three-month period ended September 30, 2016 – 0.8 million).

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Net income	Common shares (000s)	Net income per share	Net income	Common shares (000s)	Net income per share
Net income (loss) – basic	\$ 12,351	326,827	\$ 0.04	\$ 11,450	251,008	\$ 0.05
Dilutive effect of share awards	-	8,972	-	-	5,512	-
Net income (loss) - diluted	\$ 12,351	335,799	\$ 0.04	\$ 11,450	256,520	\$ 0.04

For the nine-month period ended September 30, 2017, 5.5 million share awards were anti-dilutive (nine-month period ended September 30, 2016 – 0.8 million).

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Changes in non-cash working capital comprise the following:

	<b>Three months ended September 30,</b>		Three months ended September 30,
	<b>2017</b>		2016
Source/(use) of cash			
Accounts receivable	\$ 2,096	\$	(325)
Prepaid expenses and other	(6,650)		987
Accounts payable and accrued liabilities	(2,202)		2,169
<b>Changes in non-cash working capital</b>	<b>\$ (6,756)</b>	<b>\$</b>	<b>2,831</b>

The above amounts relate to:

Operating activities	\$ (11,795)	\$	434
Financing activities	-		45
Investing activities	5,039		2,352
<b>Changes in non-cash working capital</b>	<b>\$ (6,756)</b>	<b>\$</b>	<b>2,831</b>

	<b>Nine months ended September 30,</b>		Nine months ended September 30,
	<b>2017</b>		2016
Source/(use) of cash			
Accounts receivable	\$ (4,907)	\$	(9,093)
Prepaid expenses and other	(8,975)		(661)
Accounts payable and accrued liabilities	(7,726)		7,927
<b>Changes in non-cash working capital</b>	<b>\$ (21,608)</b>	<b>\$</b>	<b>(1,827)</b>

The above amounts relate to:

Operating activities	\$ (8,470)	\$	(5,848)
Financing activities	-		(45)
Investing activities	(13,138)		4,066
<b>Changes in non-cash working capital</b>	<b>\$ (21,608)</b>	<b>\$</b>	<b>(1,827)</b>

**13. COMMITMENTS**

The Corporation had the following commitments at September 30, 2017:

	Within 1 year	After 1 year but not more than 5 years	More than 5 years	Total
Rail car and vehicle leases	\$ 939	\$ 1,034	\$ -	\$ 1,973
Office and building lease	502	1,755	-	2,257
Firm transportation contracts	6,830	19,411	12,592	38,833
<b>Total</b>	<b>\$ 8,271</b>	<b>\$ 22,200</b>	<b>\$ 12,592</b>	<b>\$ 43,063</b>

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#### 14. FINANCIAL 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 have implemented and monitor 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 and the Corporation's activities. The Corporation employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Corporation's business objectives and risk tolerance levels. 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, the Corporation's objectives, policies and processes for measuring and managing these risks.

##### a) 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 cash balances held with commercial banks, accounts receivable from customers and joint venture partners and investments in privately held entities. The maximum exposure to credit risk at September 30, 2017 is as follows:

	Amount
Cash	\$ 3,878
Accounts receivable	41,053
Investments	524
	\$ 45,455

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's accounts receivable relates to amounts due from natural gas processing and NGL marketing customers as well as the Corporation's joint venture partners. The Corporation reviews accounts receivable on a regular basis and estimates an allowance for doubtful accounts based on days outstanding and likelihood of collection. When determining whether past due accounts are uncollectable, the Corporation factors in the past credit history of counterparties.

##### b) 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. The Corporation manages its liquidity risk through cash and debt management. 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 operations, 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 Midstream and Infrastructure Ltd.

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The following details the contractual maturities of the Corporation's operating financial liabilities as at September 30, 2017:

		Less than 1 year		Greater than 1 year
Accounts payable and accrued liabilities	\$	35,158	\$	-
Dividend payable		3,290		-
Incentive compensation		5,767		939
	\$	44,215	\$	939

#### c) 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 is to manage and control market risk exposures within acceptable parameters, while maximizing the Corporation's return.

##### 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. At September 30, 2017, the Corporation had bank debt totalling \$89.5 million (December 31, 2016 - \$50 million) and therefore a 1% change in the interest rate on bank debt would have had an annualized after-tax impact of \$0.7 million on net income for the year (December 31, 2016 - \$0.5 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, 2017, working capital balances denominated in USD were nominal. A 5% change in foreign exchange rates between the USD and the Canadian Dollar would have a nominal impact on net income for the nine-month period ended September 30, 2017 (nine-month period ended September 30, 2016 - nominal).

##### iii. Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is subject to price risk through its incentive compensation liabilities. A 10% change in the market price of the Corporation's incentive compensation liability would have an after-tax impact on net income in the amount of approximately \$0.5 million (December 31, 2016 - \$0.5 million) at September 30, 2017.

## 15. RELATED PARTY TRANSACTIONS

Transactions involving related parties are in the normal course of business and are recorded at market rates. In addition to the NEBC Acquisition (note 3), the transactions entered into with related parties during the nine-month period ended September 30, 2017 are as follows:

- a) During the three and nine-month periods ended September 30, 2017, the Corporation incurred \$0.2 million (three-month period ended September 30, 2016 - \$23,631) and \$0.7 million (nine-month period ended September 30, 2016 - \$0.6 million) respectively in professional fees related to legal services provided by a law firm whose partner is a director and shareholder of the Corporation. The professional fees related to acquisitions, issuance of common

## **Tidewater Midstream and Infrastructure Ltd.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

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shares, and general legal expenses. Of the total amount incurred, NIL (nine-month period ended September 30, 2016 – \$21,088) remains in accounts payable and accrued liabilities at September 30, 2017.

- b) During the three and nine-month periods ended September 30, 2017, the Corporation earned net revenue of \$2.9 million (three-month period ended September 30, 2016 - \$0.6 million) and \$9.1 million (nine-month period ended September 30, 2016 – \$0.6 million) respectively from private companies with similar shareholders and directors. During the three and nine-month periods ended September 30, 2017, Tidewater incurred operating expenses of \$1.0 million (three-month period ended September 30, 2016 - \$0.4 million) and \$2.7 million (nine-month period ended September 30, 2016 - \$0.8 million) respectively with private companies that have some shareholders and directors in common. At September 30, \$4.7 million remains as net accounts receivable (nine-month period ended September 30, 2016 – \$1.1 million).
- c) On March 1, 2017 Tidewater acquired six tractors, seven NGL trailers and three condensate trailers for total cash consideration of \$3.5 million with a private company that has some shareholders, officers and directors in common.

## **16. SUBSEQUENT EVENTS**

On August 15, 2017 Tidewater entered two acquisition agreements, one being an acquisition in the Deep Basin and Montney region (the “Deep Basin and Montney Acquisition”) for cash consideration of \$31 million and the second being an acquisition in the Wapiti region (the “Wapiti Pipeline Acquisition”) for cash consideration of \$20 million. The Deep Basin and Montney Acquisition and Wapiti Pipeline Acquisition will be funded using available room on Tidewater’s existing credit facility and is consistent with Tidewater's strategy to acquire, optimize and integrate strategic midstream assets while providing enhanced egress/takeaway options for producers.

Subsequent to September 30, 2017 the Corporation closed the Wapiti Pipeline Acquisition for total cash consideration of \$3 million after all exercised rights of first refusal. The Deep Basin and Montney Acquisition is still subject to customary closing conditions including waiver of all rights of first refusal and license transfers.