



**TIDEWATER**  
Midstream and Infrastructure Ltd.

Management's Discussion and Analysis  
For the three and nine-month periods ended September 30, 2018

November 12, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the condensed interim consolidated financial and operating results of Tidewater Midstream and Infrastructure Ltd. ("Tidewater" or the "Corporation") is dated November 12, 2018 and is supplementary to, and should be read in conjunction with, Tidewater's condensed interim consolidated financial statements as at and for the three and nine-month periods ended September 30, 2018 and 2017 (the "Financial Statements"). The accompanying Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as GAAP.

Management is responsible for preparing the MD&A. This MD&A has been reviewed and recommended by the Audit Committee of Tidewater's Board of Directors and approved by its Board of Directors.

### BUSINESS OVERVIEW

Tidewater is traded on the Toronto Stock Exchange ("TSX") under the symbol "TWM". Tidewater's business objective is to build a diversified midstream and infrastructure company in the North American natural gas, natural gas liquids ("NGL") and crude oil value chain. Its strategy is to profitably grow and create shareholder value through the acquisition and development of oil and gas infrastructure. Tidewater plans to achieve its business objective by providing customers with a full service, vertically integrated value chain through the acquisition and development of oil and gas infrastructure including: gas plants, pipelines, railcars, trucks, export terminals and storage facilities. To complement its asset base, the Corporation also markets NGL products and services to customers across North America.

Tidewater's pipelines and processing plants gather and process raw natural gas before it is injected into long-distance pipeline systems for transportation to end-use markets. Tidewater's straddle plants also process, store and transport the by-products of natural gas processing, including NGLs such as ethane, propane, butane and condensate.

Additional information relating to Tidewater is available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.tidewatermidstream.com](http://www.tidewatermidstream.com).

### RECENT HIGHLIGHTS

- Tidewater delivered another quarter of Adjusted EBITDA growth of \$17.3 million or \$0.05 per share for the third quarter of 2018 compared to \$15.3 million or \$0.05 per share for the same period in 2017.
- Cash flow from operating activities totalled \$7.3 million, an increase of \$5.6 million over the third quarter of 2017.
- Distributable cash flow increased by approximately 23% to \$12.9 million for the third quarter of 2018 compared to \$10.5 million for the same period in 2017 yielding a conservative payout ratio of 26% for the quarter (25% year to date).
- On October 18, 2018 Tidewater received approval from the Alberta Energy Regulator to construct and operate the Pipestone Montney, Sour Deep-Cut Gas Processing Complex.
- On October 30, 2018 Tidewater also received approval from the Alberta Energy Regulator to construct and operate a 120 km natural gas pipeline connecting Tidewater's Brazeau River Complex ("BRC") to TransAlta Corporation's generating units at Sundance and Keephills.
- Tidewater has executed approximately ten crude oil infrastructure agreements to date to deliver crude oil to end markets including direct to three refiners.

- During the third quarter of 2018, the Corporation amended its existing Credit Facility (the "Amended Credit Facility") with its banking syndicate which increased the total availability from \$250 million to \$325 million and contains adjustments to the Corporation's previous pricing grid, which is expected to reduce overall borrowing costs. The amendments provide additional liquidity to the Corporation's financial position.
- Tidewater remains confident in its ability to execute its operational direction as previously disclosed.

The following table presents selected financial highlights which are further discussed throughout this MD&A:

*(In thousands of Canadian dollars, except per share information)*

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 80,102	\$ 52,003	\$ 233,550	\$ 157,682
Net income (loss)	\$ (1,453)	\$ (38)	\$ 6,176	\$ 12,351
Basic and diluted income (loss) attributable to shareholders per share	\$ (0.00)	\$ (0.00)	\$ 0.02	\$ 0.04
Adjusted EBITDA <sup>1</sup>	\$ 17,283	\$ 15,346	\$ 56,499	\$ 44,586
Adjusted EBITDA per common share - basic <sup>1</sup>	\$ 0.05	\$ 0.05	\$ 0.17	\$ 0.14
Cash flow from (used in) operating activities	\$ 7,251	\$ 1,649	\$ (1,017)	\$ 31,351
Distributable cash flow <sup>1</sup>	\$ 12,911	\$ 10,509	\$ 39,965	\$ 32,622
Distributable cash flow per common share – basic <sup>1</sup>	\$ 0.04	\$ 0.03	\$ 0.12	\$ 0.10
Dividends declared	\$ 3,293	\$ 3,290	\$ 9,876	\$ 9,866
Dividends declared per common share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03
Total common shares outstanding (000s)	329,313	328,973	329,313	328,973
Payout ratio <sup>1</sup>	26%	31%	25%	30%
Total assets	\$ 1,093,936	\$ 692,073	\$ 1,093,936	\$ 692,073
Net debt <sup>1</sup>	\$ 317,162	\$ 73,094	\$ 317,162	\$ 73,094

(1) Refer to "Non-GAAP Measures"

## RESULTS OF OPERATIONS

*(In thousands of Canadian dollars, except per share information)*

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 80,102	\$ 52,003	\$ 233,550	\$ 157,682
Operating expenses	\$ 58,800	\$ 35,926	\$ 166,533	\$ 108,254
General and administrative expenses	\$ 2,692	\$ 2,047	\$ 7,678	\$ 6,331
Share-based compensation	\$ 2,981	\$ 2,054	\$ 5,160	\$ 3,945
Depreciation	\$ 10,697	\$ 6,357	\$ 31,874	\$ 17,802
Finance costs and other	\$ 3,774	\$ 1,928	\$ 8,880	\$ 4,780
Realized loss (gain) in derivative contract	\$ 1,405	\$ (1,017)	\$ 3,518	\$ (1,190)
Unrealized loss (gain) in derivative contract	\$ 852	\$ 2,981	\$ (1,299)	\$ (540)
Deferred income tax expense	\$ 158	\$ 1,501	\$ 3,299	\$ 4,977
Net income (loss)	\$ (1,453)	\$ (38)	\$ 6,176	\$ 12,351
Basic and diluted income (loss) attributable to shareholders per share	\$ (0.00)	\$ (0.00)	\$ 0.02	\$ 0.04

### *Revenue*

Tidewater continued to deliver revenue growth in the third quarter of 2018 despite low natural gas prices impacting the industry. Revenue in the third quarter of 2018 was \$80.1 million compared to \$52.0 million in the same quarter of 2017, an increase of 54% primarily related to increased NGL marketing and addition of long-term fee for service contracts related to gas storage and the Deep Basin and Montney Acquisition. Tidewater's customers face continued pressure on commodity prices which has resulted in the continued curtailment of volumes in the third quarter and throughout October 2018. Most notably, throughput was impacted by AECO 5A gas prices averaging approximately \$1.12/GJ through the quarter resulting in continued shut-ins. Despite the volatility of AECO, the Corporation's gas storage facilities provide additional revenue sources as producers and storage customers inject gas during the shoulder seasons. The Corporation continues to have discussions and enter into new take-or-pay contracts and fee-for-service contracts related to its gas storage assets.

Revenue for the nine-month period ended September 30, 2018 was \$233.6 million compared to \$157.7 million of the same period of 2017, an increase of 48%. Incremental revenue from the Deep Basin and Montney acquisition in December 2017 resulted in additional fee-based arrangements. The Corporation continues to increase natural gas storage capacity throughout 2018. Higher trucking volumes and the addition of infrastructure connections provided for higher throughput volumes from certain customers as compared to 2017 and is supported by additional take-or-pay, fixed fee-based arrangements.

### *Operating expenses*

Operating expenses were \$58.8 million for the third quarter of 2018 compared to \$35.9 million during the same period of 2017 representing an increase of approximately 64%. For the nine months ended September 30, 2018, operating expenses were \$166.5 million compared to \$108.3 million in the same period of 2017, representing an increase of 54%.

Operating expense increases, as compared to the previous periods, were primarily related to the Deep Basin and Montney acquisition in December 2017. Additional rise in power costs due to price increases and power consumption along with higher labour expenses associated with headcount also caused increases in operating costs during the third quarter of 2018 as compared to previous quarters. Additional costs were incurred for annual safety and environmental regulatory costs that occurred during the third quarter.

#### *General and administrative expenses*

General and administrative expenses for the three months ended September 30, 2018 were \$2.7 million, compared to \$2.0 million for the same period in 2017. The increase is primarily due to higher corporate employee costs as a result of the Corporation's growth organically and through acquisitions. Employee costs include increased salaries as a result of additional employees to support operational requirements and to support the growth of the Corporation's asset base. Included in general and administrative expenses are non-recurring costs of \$0.4 million and \$0.4 million for the quarters ended September 30, 2018 and 2017, respectively, relating to one-time asset evaluations related to rights of first refusal during 2018 and deal related employee severance costs in 2017.

General and administrative expenses for the nine months ended September 30, 2018 were \$7.7 million, compared to \$6.3 million for the same period in 2017. This increase was primarily driven by the same factors as noted above. Included in general and administrative expenses are non-recurring costs of \$0.7 million and \$0.4 million for the nine months ended September 30, 2018 and 2017, respectively, relating to one-time asset evaluations related to rights of first refusal during 2018 and deal related employee severance costs in 2017.

#### *Share-based compensation*

The Corporation's share-based compensation for the three and nine-month periods ended September 30, 2018 increased by \$0.9 million and \$1.2 million, respectively, as compared to the three and nine-month periods ended September 30, 2017. The increase is mainly attributable to Tidewater's restricted share unit (RSU) plan which is re-measured at each reporting date and at the date of settlement. Any changes in fair value are recognized in profit or loss for the period and are non-cash impacts. At September 30, 2018 the Corporation's closing share price was \$1.38 per share, an increase of \$0.14 per share compared to the June 30, 2018 closing price of \$1.24 per share resulting in the increase in the non-cash revaluation of share-based compensation quarter over quarter.

#### *Depreciation*

Depreciation during the third quarter of 2018 was \$10.7 million compared to \$6.4 million for the same period in 2017. This increase was largely the result of the year-over-year growth in Tidewater's asset base with the Deep Basin and Montney acquisition as well as turnaround costs for the Corporation's facilities. For the nine months ended September 30, 2018, depreciation was \$31.9 million compared to \$17.8 million for the nine months ended September 30, 2017 for the same reasons noted above.

#### *Finance costs and other*

Finance costs and other incurred during the three and nine months ended September 30, 2018 were \$3.8 million and \$8.9 million compared to \$1.9 million and \$4.8 million for the three and nine months ended September 30, 2017, respectively. The increase is due to increased borrowings related to bank debt and the issuance of notes payable in December 2017 to finance the Corporation's capital projects. The

Corporation also recognized additional accretion on its decommissioning liabilities, primarily attributable to recognizing a full period of accretion on the Deep Basin and Montney acquisition.

The increase is partially offset by capitalized interest of \$2.1 million and \$6.3 million during the three and nine-month periods ended September 30, 2018, respectively, relating to the Corporation's qualifying projects including the Pipestone Plant and Intra-Alberta Pipeline to TransAlta.

#### *Realized loss (gain) on derivative contract*

To protect the value of its NGL inventory from fluctuations in commodity prices, the Corporation typically uses physical and financial forward contracts. Although the derivative contracts realized a loss, the corresponding unhedged production revenue will increase and is intended to mitigate fluctuations in the value of the commodity prices and inventories and to protect operating margin. Overall, the Corporation hedges anywhere from 50% to 100% of its price exposure related to NGL marketing.

During the three and nine months ended September 30, 2018, the Corporation incurred realized losses on its derivative contracts. The current period losses were predominantly driven by increases in the price of propane and condensate offset by decreased AECO gas prices.

#### *Unrealized loss (gain) on derivative contract*

For the three months ended September 30, 2018 and 2017, the unrealized loss on the mark-to-market positions of commodity-related derivative financial instruments was \$0.9 million and \$3.0 million, respectively, compared to a \$1.3 million and \$0.5 million unrealized gain for the nine month periods ended September 30, 2018 and 2017, respectively. As discussed above, the third quarter non-cash loss was predominantly driven by increases in the price of propane and condensate.

#### *Deferred income tax expense*

Deferred income tax expense is a non-cash tax item and was \$0.2 million and \$3.3 million for the three and nine months ended September 30, 2018 compared to a deferred income tax expense of \$1.5 million and \$5.0 million, respectively for the three and nine months ended September 30, 2017. The main cause for the decrease in deferred income tax expense was the decrease in earnings (loss) before income tax.

#### *Net income (loss)*

The Corporation incurred a net loss of \$1.5 million during the third quarter of 2018 compared to a net loss of \$38 thousand in the same period of 2017. Overall, the net loss for the third quarter of 2018 is driven by the Corporation's increase in non-cash expenses including depreciation, mark-to-market on share-based compensation and unrealized losses on derivative contracts as described above.

Net income was \$6.2 million during the nine months ended September 30, 2018 compared to \$12.4 million during the same period of the prior year. The year-to-date decrease was due to an approximately \$14.1 million increase in depreciation as a result of asset growth and turnarounds and \$1.2 million increase in share-based compensation (as a result of the fair value change in RSUs), as specifically described above.

### *Net income (loss) per share attributable to shareholders*

Net income (loss) per share was flat for the third quarters of 2018 and 2017 and decreased by 50% for the nine months ended September 30, 2018 as compared to 2017. The reduction in net income per share was driven by the decrease in net income as discussed above. Dividends declared per share was \$0.01 per share in the third quarter of 2018 and has remained consistent for each quarter of 2018 and 2017.

## **OUTLOOK AND CORPORATE UPDATE**

Tidewater continues to position itself to provide producers additional egress solutions and improved pricing for their products in a challenging commodity price environment by developing and connecting its infrastructure in order to access additional end markets.

Overall, while gas processing volumes remained under pressure compared to the first quarter of 2018, Tidewater moved significant NGL volumes and generated incremental fee for service revenue from its gas storage assets during the third quarter. The Corporation also began entering into new crude oil infrastructure contracts where the benefits to Tidewater's earnings will be visible in 2019. Tidewater is pleased with the progress on its two largest projects, including regulatory approval for both the Pipestone Plant and Intra-Alberta Pipeline to TransAlta, in which both projects will provide producers with much needed egress solutions for natural gas, NGLs and condensate.

### **Crude Oil Infrastructure**

Tidewater is aggressively growing its crude oil infrastructure business and has received significant support from producers and refiners. Tidewater expects it will deliver Canadian crude to approximately ten end markets by the end of the first quarter of 2019 and continues to explore various market access opportunities including storage, terminals and pipelines. The majority of the agreements are for terms of less than 12-months, however, Tidewater intends to grow this business and negotiate longer term agreements with existing and new customers. Contribution to net income for crude oil infrastructure contracts in 2019 is expected to be approximately \$7 - \$8 million based on an average contracted volume of 200,000 – 400,000 bbls per month at market rate loading and transportation fees to locations throughout North America. Contribution to Adjusted EBITDA is expected to be approximately \$10 million after adjusting for capitalized lease and finance costs over an average of 2-5 years.

### **Ram River Gas Plant**

During the third quarter, Tidewater completed new tie-ins and subsequent to September 30, 2018 began accepting incremental volumes at the Ram River Plant under the previously announced five-year take-or-pay for gas processing and sulphur handling with a mid-size oil and gas producer. The agreement is for an incremental 18 MMcf/d in the first contract year with the take-or-pay volume declining by approximately 30% year-over-year during the five-year period. Throughput at the Ram River Plant remains strong with new customers Tidewater has tied-in since the acquisition.

### **Brazeau River Complex**

Throughput at the BRC was below its historical average for the quarter due to continued pressure on gas prices and downtime related to the turnaround and tie-in projects at the BRC. Tidewater is working diligently with producers to improve netbacks by fully utilizing BRC's facilities including its three NGL pipeline connections, truck loading and offloading, fractionation and natural gas storage facilities. During the third quarter, Tidewater installed the BRC tie-in riser for the Intra-Alberta Pipeline to TransAlta during

the final turnaround operations at the BRC. The Intra-Alberta Pipeline to TransAlta will offer producers a third natural gas takeaway option directly to an end market in the second half of 2019.

### **Natural Gas Storage**

Tidewater continued to inject customer gas under long-term contracts at the Pipestone gas storage facility through the quarter, growing the cushion gas at the facility and increasing the injection and withdrawal capability of the storage reservoir.

Tidewater also completed its previously announced \$2.5 million project at the Brazeau gas storage facility for an increased injection capability of approximately 10 MMcf/d. The Brazeau gas storage facility now has injection capability of approximately 40 – 45 MMcf/d.

Tidewater's gas storage projects remain well positioned to benefit from the low commodity price environment while acting as a natural hedge to Tidewater's core business thereby achieving its goal of offering additional egress options and improved pricing to producers.

### **NGL Extraction and Fractionation Facilities**

During the third quarter of 2018, one of the pipelines on the Trans Canada Pipeline system that supplies natural gas to Tidewater's extraction plants experienced an approximate one-month, unplanned maintenance outage which impacted NGL sales volumes from the Corporation's Villeneuve and Fort Saskatchewan extraction plants by approximately 450 bbls/d. Despite the unplanned maintenance, Tidewater's extraction plants in the Edmonton area performed well in the quarter and together with natural gas storage continue to act as a natural hedge to low AECO prices.

Tidewater currently has approximately 100 MMcf/d of natural gas straddle volumes flowing through its extraction facilities and has been notified by Trans Canada Pipeline of the potential for curtailment or shut-in of two of the pipelines on their system due to potential pipeline integrity concerns. As a result, Tidewater may experience curtailment or shut-in natural gas volumes to the Corporation's Paddle River and Fort Saskatchewan extraction plants that could impact NGL sales during the fourth quarter of 2018.

## **CAPITAL PROGRAM**

### **Pipestone Montney Sour Gas Plant**

On October 18, 2018 Tidewater received approval from the Alberta Energy Regulator to construct and operate the Pipestone Plant. The Pipestone Plant is designed to process approximately 100 MMcf/d of natural gas. During the quarter, as previously announced, Tidewater executed a definitive agreement with a large oil and gas producer for firm volumes of 25 MMcf/d over a five-year term. With this additional arrangement, Tidewater is fully contracted at the Pipestone Plant.

As a result of significant producer support, Tidewater is currently evaluating a condensate liquids hub at Pipestone.

Tidewater began construction on the Pipestone Plant in late October and expects approximately \$120 - \$125 million of capital remaining to be spent between the fourth quarter of 2018 and the plants commissioning early in the third quarter of 2019. Remaining capital excludes the 32 MW cogeneration units which Tidewater is considering monetizing all or a portion of. Two of the Pipestone Plant's anchor tenants, Blackbird Exploration Ltd. and Kelt Exploration Ltd., have options to exercise ownership in the facility for 20% and 15% respectively.

Contribution to net income for the Pipestone plant is expected to be approximately \$25 - \$30 million based on plant throughput of approximately 100 MMcf/d of contracted volume at market rates over a 5 – 10 year period. Estimated annual operating costs are based on plants of similar size with sour gas processing capability and similar NGL handling capability. Adjusted EBITDA contribution is expected to be approximately \$30 - \$35 million after adding back depreciation and finance costs based on a 60-year useful life.

### **Intra-Alberta Pipeline to TransAlta**

On October 30, 2018 Tidewater received approval from the Alberta Energy Regulator to construct and operate the previously announced 120 km natural gas pipeline connecting Tidewater's BRC to TransAlta's generating units at Sundance and Keephills (the "Pipeline"). The Pipeline will have initial capacity of 130 MMcf/d which may be expanded to approximately 440 MMcf/d and is supported by a 15 year take or pay commitment from TransAlta. TransAlta has an option to acquire a 50% ownership in the project and it is likely that TransAlta will exercise its option. Tidewater expects to commence construction of the Pipeline in mid-November 2018 with total cost of the project expected to be approximately \$180 million (\$90 million net) assuming the option is exercised by TransAlta. Remaining capital costs of approximately \$140 million (\$50 million net) are expected to be incurred during the fourth quarter of 2018 through to the commissioning of the Pipeline in the third or fourth quarter of 2019.

Since executing binding construction contracts and purchase orders, following regulatory approval of the TransAlta Pipeline, and due to increasing pipeline construction activity in Alberta, Tidewater has seen an increase to base construction costs of approximately 10% bringing baseline capital costs related to the project to \$180 million.

Assuming TransAlta exercises its 50% option, contribution to net income for the TransAlta Pipeline is expected to be approximately \$8 - \$9 million based on throughput of approximately 130 MMcf/d of contracted volume at market rate tolls over a 15 year period. Estimated annual operating costs for the pipeline are based on other pipelines within Tidewater's currently owned infrastructure of similar size and flows rate capability. Adjusted EBITDA contribution is expected to be approximately \$10 million after adding back depreciation and finance costs based on a 60 year useful life.

Tidewater remains fully funded with its existing credit facility and cash flow from operations to fund its capital program through the end of 2019.

### **SUMMARY OF QUARTERLY RESULTS**

The following table presents a summary of Tidewater's quarterly results for the last eight quarters:

*(In thousands of Canadian dollars, except per share information)*

	<b>Three months ended</b>			
	<b>September 30, 2018</b>	<b>June 30, 2018</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Revenue	\$ 80,102	\$ 69,234	\$ 84,214	\$ 63,707
Net income (loss) attributable to shareholders	(988)	3,224	4,797	504
Net income (loss) per share attributable to shareholders – basic and diluted	(0.00)	0.01	0.01	0.00
Adjusted EBITDA <sup>1</sup>	17,283	18,981	20,001	16,974

(1) Refer to "Non-GAAP Measures"

*(In thousands of Canadian dollars, except per share information)*

	Three months ended			
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Revenue	\$ 52,003	\$ 56,113	\$ 49,565	\$ 39,083
Net income (loss) attributable to shareholders	(38)	4,871	7,518	3,678
Net income (loss) per share attributable to shareholders – basic and diluted	(0.00)	0.01	0.02	0.01
Adjusted EBITDA <sup>1</sup>	15,346	14,858	14,382	11,768

(1) Refer to "Non-GAAP Measures"

During 2018, the following trends caused an overall decrease in net income (loss) attributable to shareholders and Adjusted EBITDA for each quarter presented:

- Turnaround at the BRC during the second quarter of 2018, which caused a decrease in volumes and related sales as compared to the first quarter of 2018;
- Producer shut-ins due to low AECO natural gas prices;
- Increased unrealized losses on hedges as propane and condensate prices increase; and
- Higher depreciation as a result of higher asset value.

During 2017, the following trends caused an overall increase in net income (loss) attributable to shareholders and Adjusted EBITDA for each quarter presented:

- Continued overall growth both organically and through acquisitions throughout 2016 and 2017 including: the Brazeau Gas Gathering acquisition and additional working interest at the BRC (Q4 2016); the North East BC acquisition adding a 30 MMcf/d sour, shallow cut gas processing facility in the Parkland area of North East BC (Q1 2017); Deep Cut Extraction Plant acquisition adding 70 MMcf/d and 250 km of gas gathering pipelines (Q2 2017); Construction of the BRC Fractionation Facility and additional Deep-Cut Processing Capacity (Q2 2017); and the Deep Basin and Montney acquisition including an 85% working interest in a rail connected 600 MMcf/d gas processing facility, a 25% operated working interest in two dehydration facilities, 400 MMcf/d and 200 MMcf/d respectively, as well as compression facilities and related pipelines (Q4 2017); and
- Increased natural gas storage capacity.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity Sources

The Corporation's primary liquidity and capital resource needs are to fund ongoing capital expenditures, future growth opportunities, interest payments, working capital and a stable dividend.

The Corporation has the following contractual obligations as at September 30, 2018:

(000s)	September 30, 2018		December 31, 2017	
	Less than 1 year	Greater than 1 year	Less than 1 year	Greater than 1 year
Accounts payable and accrued liabilities	\$ 110,087	\$ -	\$ 76,592	\$ -
Derivative contracts	1,933	799	3,503	528
Dividend payable	3,293	-	3,290	-
Interest payable	2,404	-	301	-
Incentive compensation	9,747	1,130	6,963	1,581
Bank debt	-	181,050	-	60,000
Notes payable	-	122,077	-	121,708
	\$ 127,464	\$ 305,056	\$ 90,649	\$ 183,817

The Corporation has a working capital deficiency (defined as current assets less current liabilities) of approximately \$14 million at September 30, 2018 as compared to a surplus of approximately \$30 million at December 31, 2017. The decrease is a result of the ongoing major construction project costs, Pipestone Plant and Intra-Alberta Pipeline to TransAlta, that are outstanding in accounts payable and accrued liabilities at the end of the period.

The Corporation's Amended Credit Facility is used to provide financing for working capital, fund capital expenditures and other general corporate purposes. Total availability under the Corporation's credit facility is \$325 million, which also contains an accordion feature that permits the Corporation to increase the size of the facility to an aggregate of \$350 million. The Amended Credit Facility matures on August 23, 2021, which may be further extended for a period of up to one year with the consent of the Syndicate.

The Corporation is required to meet certain financial covenants under its credit facility and is also subject to customary restrictions on its notes payable and credit facility including restrictions on the granting of security, incurring indebtedness and the sale of its assets.

The key financial covenants include a consolidated debt to adjusted EBITDA ratio of less than or equal to 4.50:1, consolidated senior debt to adjusted EBITDA ratio of less than or equal to 3.50:1, and a fixed charge coverage ratio greater than or equal to 1.15:1. The Corporation may include up to 10% of projected annual adjusted EBITDA attributable to material projects currently under construction based on certain criteria as outlined within the credit facility. Adjusted EBITDA is defined under the Amended Credit Facility as net income (loss) plus finance costs and other, deferred income tax expense, depreciation, unrealized loss (gain) on derivative contracts, share-based compensation, foreign exchange (gains) losses, gains/losses on asset disposal, transaction costs and non-recurring transactions. Consolidated debt is defined as bank debt and notes payable and consolidated senior debt is defined as bank debt. Fixed charge coverage ratio is calculated as adjusted EBITDA divided by the sum of interest expense, capitalized interest and dividends paid.

At September 30, 2018, the Corporation was in compliance with its financial covenants reporting a consolidated debt to Adjusted EBITDA ratio of 3.87, consolidated senior debt to Adjusted EBITDA ratio of 2.33, and fixed charge coverage ratio of 2.94.

Tidewater anticipates that cash flow from operating activities, cash flow from growth projects, cash available from Tidewater's credit facility and other sources of financing will be sufficient to meet its obligations and financial commitments and will provide sufficient funding for anticipated capital expenditures. Due to the nature of the energy midstream industry, budgets are regularly reviewed with respect to the success of the expenditures and other opportunities that become available to the Corporation. Tidewater's actual expenditures may vary depending on a variety of factors, including the availability of equipment and personnel, unexpected expenses, delays in the receipt of necessary regulatory approvals, permits and licences, and the success of Tidewater's business development activities, among other variables.

The most significant exposure faced by the gathering, processing and transportation business is related to declines in production volumes. With Tidewater's facilities located in significant natural gas supply areas and the high barriers to entry of new participants and current and future take-or-pay contracts and gas storage facilities, the cashflow is anticipated to remain stable and be sufficient to support operations, fund sustaining capital expenditures and generate distributable cash.

### Cash Flow Summary

The following table summarizes the Company's sources and uses of funds for the three and nine months ended September 30, 2018 and 2017 from continuing operations:

*(In thousands of Canadian dollars)*

Cash flows provided by (used in)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Operating activities	\$ 7,251	\$ 1,649	\$ (1,017)	\$ 31,351
Financing activities	\$ 47,511	\$ 20,296	\$ 110,677	\$ 92,404
Investing activities	\$ (62,964)	\$ (20,632)	\$ (147,491)	\$ (127,887)

### Net Cash Provided by (used in) Operating Activities

Net cash provided by (used in) operating activities was \$7.3 million and \$(1.0) million for the three and nine months ended September 30, 2018, compared to \$1.6 million and \$31.4 million for the three and nine months ended September 30, 2017, respectively. The quarter over quarter increase was due to the Deep Basin and Montney Acquisition in December 2017 and higher frac price spreads from the Corporation's straddle plants. The decrease in the nine-month period over nine-month period is a result of increased change in non-cash working capital due to timing differences related to seasonal fluctuations, equalization adjustments and flow-through operating fee charges.

## Net Cash Used in Financing Activities

Cash provided by financing activities was \$47.5 million and \$110.7 million in the three and nine months ended September 30, 2018 compared to \$20.3 million and \$92.4 million in the three and nine months ended September 30, 2017, respectively. The increase was due to the advances on the Corporation's credit facility offset by interest payments to fund its capital projects. The Corporation continues to pay dividends on a quarterly basis at \$0.01 per share.

On December 19, 2017, the Corporation closed a private placement of five-year unsecured senior notes with a face value of \$125 million for total consideration of \$124.3 million. The notes bear interest at 6.75% and are due on December 19, 2022. The notes are recognized at amortized cost and interest is paid semi-annually.

## Net Cash Used in Investing Activities

Cash used in investing activities consists primarily of capital expenditures. Cash used in investing activities was \$63.0 million and \$147.5 million in the three and nine months ended September 30, 2018, compared to \$20.6 million and \$127.9 million in the three and nine months ended September 30, 2017. Cash used in investing activities largely relates to the major projects, as described throughout this MD&A, which continued to progress over the three quarters of 2018.

## Capital Expenditures

The following table summarizes growth and maintenance capital expenditures for the three and nine months ended September 30, 2018 and 2017:

<i>(in thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Growth capital	\$ 74,328	22,965	\$ 185,974	92,230
Maintenance capital	1,018	2,706	8,593	5,995
Total additions to property, plant and equipment as per statement of cash flows	\$ 75,346	25,671	\$ 194,567	98,225

### *Growth Capital*

Capital expenditures for the third quarter of 2018 were \$74.3 million and \$186.0 million on a year-to-date basis, compared to \$23.0 million and \$92.2 million for the same periods in 2017. The increase in capital spending in 2018 compared to 2017 is largely due to the construction on the Pipestone Plant and Intra-Alberta Pipeline to TransAlta projects. In addition to the Pipestone and Intra-Alberta Pipeline to TransAlta, Tidewater continues to move forward on multiple other small-scale optimization and growth capital projects.

### *Maintenance Capital*

Tidewater places a high priority on the maintenance and upgrading of its gathering and processing assets, to provide safe, reliable midstream services to its customers. Maintenance capital expenditures for the three and nine months ended September 30, 2018 of \$1.0 million and \$8.6 million, respectively compared to \$2.7 million and \$6.0 million for the three and nine months ended September 30, 2017. The increase in expenditures for the nine months ended September 30, 2018 as compared to 2017, mainly relate to

the planned maintenance and turnaround operations at the BRC. This maintenance and turnaround is scheduled to occur every four years.

## COMMITMENTS

At September 30, 2018, the Corporation had commitments related to railcar, vehicle, building leases and firm transportation contracts. The railcar and vehicle leases range in term from one to five years at market lease rates. These leases are used to transport propane and crude. The building and office leases relate to Tidewater's retail propane business and the Corporation's corporate and field offices. The retail propane business has offices in Rimbey and Wetaskiwin, Alberta and the leases can be terminated with 180 days' notice by Tidewater. The Corporation also has offices in Athabasca, St. Albert, Red Deer and Drayton Valley, Alberta with leases ranging from one to three years. The firm transportation contracts relate to firm service contracts with TransCanada, Alliance and Nova Pipelines ranging from one to ten years. Minimum future payments for these leases are as follows:

<i>(In thousands of Canadian dollars)</i>	Within 1 year	After 1 year but not more than 5 years	More than 5 years	Total
Railcar and vehicle leases	\$ 3,397	\$ 3,270	\$ -	\$ 6,667
Office and building leases	1,023	2,653	-	3,676
Firm transportation contracts	5,469	33,131	26,648	65,248
<b>Total</b>	<b>\$ 9,889</b>	<b>\$ 39,054</b>	<b>\$ 26,648</b>	<b>\$ 75,591</b>

## OUTSTANDING EQUITY

At November 12, 2018, Tidewater had the following outstanding common shares, RSUs and options:

<i>(In thousands)</i>	
Common shares	330,527
RSUs	10,755
Options	11,467

## TRANSACTIONS WITH RELATED PARTIES

Transactions involving related parties are in the normal course of business and are recorded at market rates. The transactions involving related parties during the three and nine months ended September 30, 2018 are summarized in the following table:

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	Revenue	Operating expenses	Revenue	Operating expenses
Predator Oil Ltd. <sup>(a)</sup>	\$ 297	\$ (80)	\$ 1,027	\$ (50)
DLA Piper (Canada) LLP <sup>(b)</sup>	-	-	-	248
Cedar Creek Energy Ltd <sup>(c)</sup>	1,675	472	5,067	1,181
Fireweed Energy Ltd. <sup>(d)</sup>	-	2	-	(100)
Tidewater Brazeau Gas Storage LP <sup>(e)</sup>	508	1,340	888	1,637
<b>Total</b>	<b>\$ 2,480</b>	<b>\$ 1,734</b>	<b>\$ 6,982</b>	<b>\$ 2,916</b>

The related party balances included in the consolidated statement of financial position as at September 30, 2018 are summarized in the following table:

<i>(in thousands of Canadian dollars)</i>	<b>As at September 30, 2018</b>	
<b>Related Party</b>	Accounts receivable	Prepaid expenses and other
Predator Oil Ltd. <sup>(a)</sup>	\$ 260	\$ -
DLA Piper (Canada) LLP <sup>(b)</sup>	-	-
Cedar Creek Energy Ltd <sup>(c)</sup>	2,389	6,078
Fireweed Energy Ltd. <sup>(d)</sup>	358	-
Tidewater Brazeau Gas Storage LP <sup>(e)</sup>	432	-
<b>Total</b>	<b>\$ 3,439</b>	<b>\$ 6,078</b>

- (a) Predator Oil Ltd. is a private company, controlled by Tidewater's Chief Executive Officer, Joel Macleod. The related party transactions with Predator Oil Ltd. comprise of gas processing fee revenue, retail propane sales and trucking revenue.
- (b) DLA Piper (Canada) LLP is a law firm whose partner, Trevor Wong-Chor, was a member of Tidewater's Board of Directors. DLA Piper (Canada) LLP ceased to be a related party during the second quarter of 2018. The related party transactions involving DLA Piper (Canada) LLP relate to legal fees and consulting services for acquisitions, issuance of common shares and general legal services.
- (c) Cedar Creek Energy Ltd. is a private company whose shares are held by Tidewater's Chief Financial Officer, Joel Vorra, and Vice Presidents, Jeff Ketch, Reed McDonnell and Jarvis Williams. The transactions involving Cedar Creek Energy Ltd. consist of gas processing fee revenue, retail propane sales, trucking revenue and non-operated expenses. Subsequent to September 30, 2018, approximately \$0.6 million of the total outstanding receivable of \$2.4 million was collected.
- (d) Fireweed Energy Ltd. is a private company, whose Chief Executive Officer, Steve Holyoake, is a member of Tidewater's Board of Directors. The transactions involving Fireweed Energy Ltd. relate to gas processing fee revenue and non-operated plant expenses. Subsequent to September 30, 2018, approximately \$0.3 million of the total outstanding receivable of \$0.4 million was collected.
- (e) Tidewater Brazeau Gas Storage LP is a joint arrangement partnership. The transactions involving Tidewater Brazeau Gas Storage LP consist of gas processing fee revenue, gas storage fee expenses and commodity purchases.

For the nine months ended September 30, 2018, Tidewater had no other transactions with related parties, except those pertaining to contributions to Tidewater's long-term incentive plans and remuneration of key management personnel in the ordinary course of their employment.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has certain lease arrangements, all of which are reflected in the Commitments table above, which were entered into in the normal course of business. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses, depending on the nature of the lease.

#### **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

Tidewater's financial instruments consist of cash, accounts receivable, derivative contracts, prepaid expenses and deposits, investments, accounts payable and accrued liabilities, dividends payable, interest payable, bank debt and notes payable. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, foreign exchange or credit risk arising from these financial instruments.

The majority of Tidewater's accounts receivable are due from entities in the oil and gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad

domestic customer base. Tidewater evaluates and monitors the financial strength of its customers in accordance with its credit policy. End users for Tidewater's products range from large natural gas utilities, producers and refiners many of which are considered investment grade entities. With respect to counterparties for financial instruments used for hedging purposes, the Corporation limits its credit risk through dealing with recognized futures exchanges or investment grade financial institutions and by maintaining credit policies which minimize overall counterparty credit risk.

Tidewater 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.

The Corporation enters into certain financial derivative contracts to manage commodity price, power and foreign exchange risk. These instruments are not used for speculative purposes. The Corporation has not designated its financial derivative contracts as effective accounting hedges, even though the Corporation considers all commodity, power and foreign exchange contracts to be effective economic hedges. Such financial derivative contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized loss (gain) on the consolidated statement of net income and comprehensive income.

The Corporation's financial risks are discussed in note 14 of the Corporation's Financial Statements.

## **ENVIRONMENTAL REGULATION AND CLIMATE CHANGE**

Tidewater is subject to a range of laws, regulations and requirements imposed by various levels of government and regulatory bodies in the jurisdictions in which it operates including regulations that restrict or limit the release of emissions or specific substances.

While these legal controls and regulations affect numerous aspects of Tidewater's activities, including but not limited to, the operation of wells, pipelines and facilities, construction activities, emergency response, operational safety and environmental procedures, Tidewater does not believe that they impact its operations in a manner materially different from other comparable businesses operating in the same jurisdictions.

The midstream industry is subject to provincial and federal environmental legislation and regulations. Among other things, the environmental regulatory regime provides restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and natural gas industry operations. Environmental regulation affects the operation of facilities and limits the extent to which facility expansion is permitted. In addition, legislation requires that facility sites and pipelines be abandoned and reclaimed to the satisfaction of provincial authorities and local landowners. A breach of such legislation may result in the imposition of fines, the issuance of clean-up orders or the shutting down of facilities and pipelines.

Greenhouse gases, primarily carbon dioxide and methane emissions, are subject to regulatory reporting requirements as well as limitations in the jurisdictions in which Tidewater operates. Tidewater is compliant with its regulatory requirements, and also monitors the development of the regulatory and legislative frameworks within which it operates.

In Alberta, the government has replaced the Specified Gas Emitters Program (SGER) with the Carbon Competitiveness Incentive Regulation (CCIR). The CCIR will apply to facilities that emit 100,000 tonnes or more of greenhouse gasses ("GHGs") in 2023 or in any subsequent year. Under the new program, Tidewater facilities which were formerly regulated under SGER, remain unchanged. Tidewater's BRC, Ram

River Plant and the current Pipestone Plant project, all come under the CCIR regulations. Both Ram River Plant and BRC have interim compliance obligations that will remain in place in the near-term and until the new benchmark for regulated facilities are finalized by the Alberta government. The majority of Tidewater's facilities are currently exempt from the Alberta carbon levy and under current regulation will remain exempt until 2023.

In addition to the Alberta regulations, the federal government is also developing carbon regulations under the Pan-Canadian Framework on Clean Growth and Climate Change, which will serve as a backstop for jurisdictions in Canada which do not have their own equivalent climate change regulations. In its current state, it has been acknowledged that the Alberta plan for industrial emissions satisfies the federal needs.

Tidewater continuously monitors legislative initiatives and overall regulatory trends across Canada and the U.S. so it is aware of potential developments that could affect its business and operations. The Corporation is closely monitoring these evolving GHG regulations to ensure it has a thorough understanding of the current CCIR regulations, as they continue to develop at both the provincial and federal levels where the Corporation operates. In anticipation of increased compliance costs as a result of these regulatory changes Tidewater is developing a Corporate GHG and Carbon Strategy with industry leading professionals to reduce its carbon footprint, reduce GHG compliance costs and mitigate future increased financial risk. Tidewater has forecasted out several years of future compliance obligation costs which will be incorporated into its annual budget.

#### **CHANGES IN ACCOUNTING POLICIES**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Standards Interpretations Committee.

The following new standards were adopted during the nine-month period ended September 30, 2018:

- IFRS 9, "Financial Instruments"

On January 1, 2018, the Corporation adopted IFRS 9, "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement". This new standard accounts for all aspects of financial instruments and includes a logical model for classification and measurement, a single forward looking 'expected-loss' impairment model and a substantially reformed approach to hedge accounting. Adoption of this new standard did not have a material impact on the Corporation's consolidated financial statements. The Corporation has adopted IFRS 9 using a retrospective approach with no impact to opening retained earnings or comparative periods.

- IFRS 15, "Revenue from Contracts with Customers"

On January 1, 2018, Tidewater adopted IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces the existing revenue recognition guidance with a single comprehensive accounting model. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. The Corporation has adopted IFRS 15 using a retrospective approach.

As a result of the adoption of IFRS 15, including the practical expedients, no changes to the Corporation's comparative consolidated financial statements were required. IFRS 15 did not have a material impact on the condensed interim consolidated statement of net income and

comprehensive income for the period ended September 30, 2018 or its condensed consolidated interim statement of financial position as at September 30, 2018.

Refer to note 2 to the Financial Statements for more information including additional disclosure as required under IFRS 15.

## **FUTURE ACCOUNTING PRONOUNCEMENTS**

### **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 resulting in a lease liability and a corresponding leased asset called right-of-use asset. On the statement of net income and comprehensive income, lease expense will be recognized consisting of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. IFRS 16 comes into effect on January 1, 2019 and can be adopted fully retrospectively or using a modified retrospective approach. The Corporation is currently in the process of reviewing its existing leases to assess the quantitative impact of the adoption of IFRS 16 on its financial statements. Based on preliminary assessment, the most significant impact is that the Corporation will recognize new assets and liabilities for its lessee operating leases of rail cars, office space and surface land arrangements. The Corporation has taken proactive measures to review the impacts of the adoption of this standard on its debt covenants including certain amendments to its covenants which will provide an option to adjust for the impact of this standard or to provide a grandfathering approach.

It is anticipated that the adoption of IFRS 16 will reduce operating expenses with an increase to depreciation relating to right of use assets and interest expense relating to lease liabilities. Adjusted EBITDA will be higher throughout the term of the lease, and net income (loss) will be lower at lease inception increasing over the lease term. In addition, cash flow from operating activities will be higher, and cash flow from financing activities will be lower as lease obligation repayments will be reported as financing activities on the Statement of Cash Flows. There will be no net impact on cash flows.

## **CRITICAL ACCOUNTING ESTIMATES**

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result in actual results or changes to estimates that differ materially from current estimates. The Corporation’s use of estimates and judgments in preparing the interim condensed consolidated financial statements is discussed in note 2 of the consolidated financial statements for the year ended December 31, 2017.

## **CONTROL ENVIRONMENT**

### *Disclosure Controls and Procedures (“DC&P”)*

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) are satisfied that, as of September 30, 2018, Tidewater’s DC&P are designed to provide reasonable assurance that material information relating to the Corporation and its applicable subsidiaries has been brought to their attention and that information required to be disclosed pursuant to applicable securities legislation has been recorded, processed, summarized and reported in an appropriate and timely manner.

### *Internal Controls Over Financial Reporting ("ICFR")*

The CEO and the CFO are satisfied that Tidewater's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Corporation's management, under the supervision of the CEO and CFO, used the criteria and framework established in the 2013 Internal Controls - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design Tidewater's ICFR.

It should be noted that a control system, including the Corporation's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable but not absolute assurance that the objectives of the control system will be met, and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

### **NON-GAAP MEASURES**

Throughout this MD&A, Tidewater has used the following terms that are not defined by GAAP but are used by management to evaluate the performance of the Corporation. Since non-GAAP measures do not have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies, securities regulations require that non-GAAP measures are clearly defined, qualified and reconciled to their nearest GAAP measure. Except as otherwise indicated, these non-GAAP measures will be calculated and disclosed on a consistent basis from period to period. Specific adjusting items may only be relevant in certain periods.

The intent of non-GAAP measures is to provide additional useful information to investors and analysts though the measures do not have any standardized meaning under IFRS. The measures should not, therefore, be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate these non-GAAP measures differently.

### **Adjusted EBITDA, Adjusted EBITDA per common share**

Adjusted EBITDA and Adjusted EBITDA per common share are non-GAAP measures. Adjusted EBITDA is calculated as income or loss before finance costs, taxes and depreciation, share-based compensation, unrealized gains/losses on derivative contracts, non-cash items, transaction costs and other items considered non-recurring in nature. Adjusted EBITDA per common share is calculated as Adjusted EBITDA divided by the weighted average number of common shares outstanding for the three and nine-month periods ended September 30, 2018.

Management utilizes Adjusted EBITDA to set objectives and as a key performance indicator of the Corporation's success and is continually used by the management team to assist them in making operating decisions and assessing performance. In addition to its use by management, Tidewater also believes Adjusted EBITDA is a measure widely used by securities analysts, investors, lending institutions and others to evaluate the financial performance of the Corporation and other companies in the midstream industry. The Corporation issues guidance on this key measure. As a result, Adjusted EBITDA is presented as a relevant measure in the MD&A to assist analysts and readers in assessing the performance of the Corporation as seen from management's perspective. Investors should be cautioned that Adjusted EBITDA should not be construed as alternatives to net income (loss), net cash provided by (used in) operating activities or other measures of financial results determined in accordance with GAAP as an indicator of the Corporation's performance and may not be comparable to companies with similar calculations.

The following table reconciles net income (loss), the nearest GAAP measure, to Adjusted EBITDA:

*(In thousands of Canadian dollars, except per share information)*

	Three-months ended September 30,		Nine-months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ (1,453)	\$ (38)	\$ 6,176	\$ 12,351
Deferred income tax expense	158	1,501	3,299	4,977
Depreciation	10,697	6,357	31,874	17,802
Finance costs	3,774	1,928	8,880	4,780
Share-based compensation	2,981	2,054	5,160	3,945
Loss on sale of assets	(102)	(120)	72	(120)
Gain on holdback	-	-	-	(123)
Unrealized loss (gain) on derivative contract	852	2,981	(1,299)	(540)
Transaction costs	-	264	1,653	1,095
Non-recurring transactions	376	419	684	419
<b>Adjusted EBITDA</b>	<b>\$ 17,283</b>	<b>\$ 15,346</b>	<b>\$ 56,499</b>	<b>\$ 44,586</b>
Adjusted EBITDA per common share – basic	\$ 0.05	\$ 0.05	\$ 0.17	\$ 0.14
Adjusted EBITDA per common share – diluted	\$ 0.05	\$ 0.05	\$ 0.17	\$ 0.13

#### Distributable cash flow and distributable cash flow per common share

Distributable cash flow and distributable cash flow per common share are non-GAAP measures. Management believes distributable cash flow is a useful metric for investors when assessing the amount of cash flow generated from normal operations and to evaluate the adequacy of internally generated cash flow to fund dividends. Distributable cash flow is calculated as net cash used in operating activities before changes in non-cash working capital plus transaction costs, non-recurring expenses and after any expenditures that use cash from operations. Changes in non-cash working capital are excluded from the determination of distributable cash flow because they are primarily the result of seasonal fluctuations or other temporary changes and are generally funded with short term debt or cash flows from operating activities. Deducted from distributable cash flow are maintenance capital expenditures, including turnarounds, as they are ongoing recurring expenditures which are funded from operating cash flows. Transaction costs are added back as they vary significantly quarter to quarter based on the Corporation's acquisition and disposition activity. It also excludes non-recurring transactions that do not reflect Tidewater's ongoing operations.

Distributable cash flow per common share is calculated as distributable cash flow over the weighted average number of common shares outstanding for the three and nine-month periods ended September 30, 2018. Investors should be cautioned that distributable cash flow and distributable cash flow per share should not be construed as alternatives to earnings or other measures of financial results determined in accordance with GAAP as an indicator of the Corporation's performance and may not be comparable to companies with similar calculations.

The following table reconciles net cash provided by (used in) operating activities, the nearest GAAP measure, to distributable cash flow:

(In thousands of Canadian dollars, except per share information)

	Three-months ended September 30,		Nine-months ended September 30,	
	2018	2017	2018	2017
Net cash provided by (used in) operating activities	\$ 7,251	\$ 1,649	\$ (1,017)	\$ 31,351
Add (deduct):				
Changes in non-cash working capital	8,700	11,795	52,842	8,470
Transaction costs	-	264	1,653	1,095
Non-recurring transactions	376	419	684	419
Interest and financing charges paid	(271)	(912)	(3,200)	(2,718)
Change in accrued interest on notes payable	(2,127)	-	(2,404)	-
Maintenance capital	(1,018)	(2,706)	(8,593)	(5,995)
<b>Distributable cash flow</b>	<b>\$ 12,911</b>	<b>\$ 10,509</b>	<b>\$ 39,965</b>	<b>\$ 32,622</b>
Distributable cash flow per common share – basic and diluted	\$ 0.04	\$ 0.03	\$ 0.12	\$ 0.10

Tidewater expects to pay dividends from distributable cash flow, however the Corporation is entirely dependent upon its operations and assets to pay cash dividends to shareholders. Dividends declared for the three-month period ended September 30, 2018 were \$3.3 million or approximately 26% of distributable cash flow. Growth capital expenditures will be funded from retained operating cash flow, along with proceeds from additional debt or equity, as required.

Tidewater's objective is to payout stable dividends throughout the year. There is no assurance regarding the amounts of cash to be distributed by Tidewater or generated by Tidewater and therefore, the funds available for distribution to shareholders. The actual amount distributed will depend on a variety of factors, including without limitation, the performance of the Corporation's assets, the effect of acquisitions on Tidewater, and other factors that may be beyond the control of Tidewater. In the event significant capital expenditures are required or the profitability of Tidewater declines, there would be a decrease in the amount of cash available for distribution to shareholders and such decrease could be material. Tidewater's dividend policy is subject to change at the discretion of the Board of Directors of the Corporation. The actual amount of future dividends is proposed by management and is subject to the approval and discretion of the Board of Directors. The Board reviews future dividends in conjunction with their review of quarterly financial and operating results.

## Payout Ratio

*(In thousands of Canadian dollars)*

	Three-months ended September 30,		Nine-months ended September 30,	
	2018	2017	2018	2017
Dividends declared	\$ 3,293	\$ 3,290	\$ 9,876	\$ 9,866
Distributable cash flow	\$ 12,911	\$ 10,509	\$ 39,965	\$ 32,622
<b>Payout ratio</b>	<b>26%</b>	<b>31%</b>	<b>25%</b>	<b>30%</b>

Payout ratio is calculated by expressing dividends declared to shareholders for the period as a percentage of distributable cash flow attributable to shareholders. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current dividends.

## Net Debt

*(in thousands of Canadian dollars)*

	September 30, 2018		September 30, 2017	
Current liabilities	\$	127,464	\$	44,857
Bank debt		181,050		89,500
Notes payable		122,077		-
Current assets		(113,429)		(61,263)
Net debt	\$	317,162	\$	73,094

Net debt is used by the Corporation to monitor its capital structure and financing requirements. It is also used as a measure of the Corporation's overall financial strength. Net debt is defined as current liabilities, plus bank debt and notes payable, less current assets. The Corporation's net debt has increased as compared to 2017, as a result of the issuance of its notes payable and increased bank debt due to the overall growth and capital projects of the Corporation.

## Growth capital

Growth capital expenditures are generally defined as expenditures which are recoverable or incrementally increase cash flow or earnings potential of assets, expand the capacity of current operations or significantly extend the life of existing assets. This measure is used by the investment community to assess the extent of discretionary capital spending.

## Maintenance capital

Maintenance capital expenditures are generally defined as expenditures which support and/or maintain the current capacity, cash flow or earnings potential of existing assets without the associated benefits characteristic of growth capital expenditures. This includes major inspections and overhaul costs that are required on a periodic basis. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

## RISK AND UNCERTAINTIES

For a complete list of risks inherent in the Corporation's business, please refer to the December 31, 2017 MD&A and Tidewater's Annual Information Form for the year ended December 31, 2017, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively, "forward-looking statements"). Such forward-looking statements relate to possible events, conditions or financial performance of the Corporation based on future economic conditions and courses of action. All statements other than statements of historical fact are forward-looking statements. The use of any words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "will likely result", "are expected to", "will continue", "is anticipated", "believes", "estimated", "intends", "plans", "projection", "outlook" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, assumptions, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes there is a reasonable basis for the expectations reflected in the forward-looking statements, however no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this MD&A should not be unduly relied upon by investors.

Specifically, this MD&A contains forward-looking statements relating to but not limited to:

- planned commissioning in Q2 of 2019 of Tidewater's planned Pipestone area plant and projections with respect to contracting capacity at this proposed plant and net income to be derived therefrom;
- expectations regarding funding of capital projects;
- planned commissioning in mid 2019 of Tidewater's planned Pipestone area 100 MMcf/d sour, deep-cut Montney plant, estimated commissioning date and net income to be derived therefrom;
- projections regarding future delivery of crude oil to end markets and impact to earnings and adjusted EBITDA in 2019;
- potential curtailment or shut-in of natural gas volumes to the Corporation's straddle plants and the predicted impact to NGL sales;
- expectations regarding the Intra-Alberta Pipeline to TransAlta including projected capital costs, specifications, planned in-service date and estimates of net income and Adjusted EBITDA;
- Tidewater's expectations that TransAlta will exercise its option to acquire an ownership interest in the Intra-Alberta Pipeline to TransAlta;
- expectations regarding performance of NGL extraction and natural gas storage operations;
- expectations regarding funding of capital projects;
- expectations that adjustments made to the Corporation's previous pricing grid for its Credit Facility will reduce overall borrowing costs;
- projected plans and benefits of the Corporation's crude oil infrastructure business including with respect to future earnings and incremental Adjusted EBITDA;
- potential curtailment or shut-in of natural gas volumes to the Corporation's straddle plants and the predicted impact to NGL sales;

- expectations regarding the Intra-Alberta Pipeline to TransAlta including projected capital costs and specifications;
- projections with respect to commodity prices;
- expectations regarding performance of NGL extraction and natural gas storage operations; and
- expectations regarding funding of capital projects;

Such forward-looking statements of information are based on a number of assumptions which may prove to be incorrect. In addition to other assumptions identified in this document, assumptions have been made regarding, among other things:

- general economic and industry trends;
- oil and gas industry expectation and development activity levels and the geographic region of such activity;
- the success of the Corporation's operations;
- future natural gas, crude oil and NGL prices;
- the Corporation's ability to obtain and retain qualified staff and equipment in a timely and cost-effective manner;
- the impact of increasing competition;
- receipt of regulatory approvals for its capital projects;
- operating costs;
- that counterparties will comply with contracts in a timely manner;
- that there are no unforeseen material costs relating to the facilities which are not recoverable from customers;
- funds flow from operations and cash flow consistent with expectations;
- the ability to obtain additional financing on satisfactory terms;
- the availability of capital to fund future capital requirements relating to existing assets and projects;
- the ability of Tidewater to successfully market its products;
- the Corporation's future debt levels and the ability of the Corporation to repay its debt when due;
- foreign currency, exchange and interest rates;
- that any third-party projects relating to the Corporation's growth projects will be sanctioned and completed as expected;
- the amount of future liabilities relating to lawsuits and environmental incidents and the availability of coverage under the Corporation's insurance policies;
- anticipated timelines and budgets being met in respect of the Corporation's projects and operations;
- the ability of the Corporation to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its evaluations and activities; and
- that all required regulatory and environmental approvals can be obtained on the necessary terms and in a timely manner.

Actual results achieved will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors including but not limited to:

- general economic, political, market and business conditions, including fluctuations in interest rates, foreign exchange rates and stock market volatility;
- activities of producers and customers and overall industry activity levels;

- the regulatory environment and decisions and First Nations and landowner consultation requirements;
- operational matters, including potential hazards inherent in the Corporation's operations and the effectiveness of health, safety, environmental and integrity programs;
- fluctuations in commodity prices, inventory levels and supply/demand trends;
- actions by governmental authorities, including changes in government regulation, tariffs and taxation;
- changes in operating and capital costs, including fluctuations in input costs;
- changes in environmental and other regulations;
- activities of other facility owners, including access to third party facilities;
- competition for, among other things, business, capital, acquisition opportunities, requests for proposals, materials, equipment, labour and skilled personnel;
- environmental risks and hazards, including risks inherent in the transportation of NGLs which may create liabilities to the Corporation in excess of the Corporation's insurance coverage, if any;
- failure of third parties' reviews, reports and projections to be accurate;
- risks arising from co-ownership of facilities;
- non-performance or default by counterparties to agreements which the Corporation or one or more of its subsidiaries has entered into in respect of its business;
- actions by joint venture partners or other partners which hold interests in certain of the Corporation's assets;
- construction and engineering variables associated with capital projects, including the availability of contractors, engineering and construction services, accuracy of estimates and schedules, and the performance of contractors;
- the availability of capital on acceptable terms;
- changes in the credit-worthiness of counterparties;
- adverse claims made in respect of the Corporation's properties or assets;
- changes in the political environment and public opinion;
- risks and liabilities associated with the transportation of dangerous goods;
- risks and liabilities resulting from derailments;
- competitive action by other companies;
- effects of weather conditions;
- reputational risks;
- reliance on key personnel;
- technology and security risks;
- potential losses which would stem from any disruptions in production, including work stoppages or other labour difficulties, or disruptions in the transportation network on which the Corporation is reliant;
- technical and processing problems, including the availability of equipment and access to properties;
- changes in gas composition; and
- failure to realize the anticipated benefits of recently completed acquisitions.

The foregoing lists are not exhaustive. Additional information on these and other factors which could affect the Corporation's operations or financial results are included in the Corporation's most recent Annual Information Form and in other documents on file with the Canadian Securities regulatory authorities.

The above summary of assumptions and risks related to forward-looking statements in this MD&A is intended to provide shareholders and potential investors with a more complete perspective on Tidewater's current and future operations and such information may not be appropriate for other purposes. There is no representation by Tidewater that actual results achieved will be the same in whole or in part as those referenced in the forward-looking statements and Tidewater does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities law.

Any financial outlook or future-oriented financial information, as defined by applicable securities legislation, has been approved by management of Tidewater as of November 12, 2018. Financial outlook or future-oriented financial information is provided for the purpose of providing information about management's current expectations and goals relating to the future of Tidewater. Readers are cautioned that reliance on such information may not be appropriate for other purposes. The purpose of the future oriented financial information contained herein including but not limited to future periods of Net Income and Adjusted EBITDA is to assist investors, shareholders, and others in understanding certain financial metrics relating to expected future financial results for the purpose of evaluating the performance of Tidewater's business for future periods. This information may not be appropriate for other purposes. The results and conclusions of these assessments, along with the known and unknown risks, uncertainties and other factors referred to above, could impact Tidewater's estimates and the information related to such future periods contained herein and any such impact could be material.