



TIDEWATER
Midstream and Infrastructure Ltd.

Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended September 30, 2019

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

(all tabular amounts expressed in thousands of Canadian dollars)

As at	Notes	September 30, 2019	December 31, 2018
Assets			
Current			
Cash		\$ 4,914	\$ 5,967
Accounts receivable		118,944	88,669
Derivative contracts		7,209	10,419
Inventory		8,676	1,115
Prepaid expenses and other		20,952	13,638
		160,695	119,808
Derivative contracts		912	1,302
Investments	4	54,266	2,892
Finance lease receivable		1,238	-
Right-of-use assets	3	56,208	-
Inventory		6,572	-
Property, plant and equipment	4	1,305,660	1,109,541
Total assets		\$ 1,585,551	\$ 1,233,543
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 183,400	\$ 154,810
Contribution liability		-	15,000
Derivative contracts		54	-
Dividends payable	10	3,349	3,308
Interest payable	6,7	3,003	312
Incentive compensation	13	-	6,830
Lease liabilities	9	26,476	-
		216,282	180,260
Bank debt	5	333,400	225,000
Notes payable	6	122,688	122,208
Convertible debentures	7	65,561	-
Incentive compensation	13	-	1,512
Derivative contracts		1,993	-
Deferred tax liabilities		37,561	40,026
Decommissioning obligation	8	221,340	206,934
Lease liabilities and other	4, 9	116,756	-
Total liabilities		1,115,581	775,940
Equity			
Non-controlling interest		3,881	4,900
Shareholders' equity			
Share capital	10	438,448	433,714
Employee share reserve		17,264	3,378
Convertible debentures (equity component)	7	4,911	-
Retained earnings		5,466	15,611
Total shareholders' equity		466,089	452,703
Total shareholders' equity and non-controlling interest		469,970	457,603
Total liabilities and equity		\$ 1,585,551	\$ 1,233,543

Commitments (note 16), Subsequent events (notes 5 and 19)

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Midstream and Infrastructure Ltd.
Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) (unaudited)

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
Revenue	11	\$ 147,045	\$ 80,102	\$ 426,021	\$ 233,550
Expenses					
Operating expenses	11	135,262	58,800	380,234	166,533
General and administrative		3,637	2,794	10,231	7,606
Share-based compensation	13	1,656	2,981	7,361	5,160
Depreciation		17,552	10,697	46,380	31,874
Total expenses		158,107	75,272	444,206	211,173
Operating income (loss)		(11,062)	4,830	(18,185)	22,377
Other expenses (income)					
Finance costs and other	12	8,737	3,774	16,139	8,880
Realized loss (gain) on derivative contracts		(15,270)	1,405	(31,943)	3,518
Unrealized loss (gain) on derivative contracts		(17,647)	852	5,647	(1,299)
Realized loss (gain) on sale of assets		(2,069)	(102)	(3,353)	72
Loss (income) from equity investment		(1,848)	196	(1,431)	78
Transaction costs		893	-	1,967	1,653
Total other expenses (income) before tax		(27,204)	6,125	(12,974)	12,902
Earnings (loss) before income tax		16,142	(1,295)	(5,211)	9,475
Deferred income tax expense (recovery)		5,465	158	(4,016)	3,299
Net income (loss) and comprehensive income (loss)		\$ 10,677	\$ (1,453)	\$ (1,195)	\$ 6,176
Net income (loss) and comprehensive income (loss) attributable to:					
Shareholders of the Corporation		11,045	(988)	(176)	7,033
Non-controlling interest		(368)	(465)	(1,019)	(857)
		\$ 10,677	\$ (1,453)	\$ (1,195)	\$ 6,176
Net income (loss) per share attributable to common shareholders – basic and diluted	14	\$ 0.03	\$ (0.00)	\$ (0.00)	\$ 0.02

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Midstream and Infrastructure Ltd.
Consolidated Statements of Changes in Shareholders' Equity (unaudited)

(all tabular amounts expressed in thousands of Canadian dollars)

	Notes	September 30, 2019	September 30, 2018
Non-controlling interest			
Balance, beginning of period		\$ 4,900	\$ -
Contribution from subsidiary by non-controlling interest		-	5,878
Net loss		(1,019)	(857)
Balance, end of period		\$ 3,881	\$ 5,021
Share capital			
Balance, beginning of period		\$ 433,714	\$ 431,148
Issue of common shares	10(b)	4,749	483
Share issue costs (net of tax)	10(b)	(15)	(2)
Balance, end of period		\$ 438,448	\$ 431,629
Employee share reserve			
Balance, beginning of period		\$ 3,378	\$ 1,786
Issue of common shares		(19)	-
Share-based compensation		2,745	1,175
RSU plan amendment	13(b)	11,160	-
Balance, end of period		\$ 17,264	\$ 2,961
Convertible debentures (equity component)			
Balance, beginning of period		\$ -	\$ -
Issue of convertible debentures	7	6,749	-
Share issue costs (net of tax)		(1,838)	-
Balance, end of period		\$ 4,911	\$ -
Retained earnings			
Balance, beginning of period		\$ 15,611	\$ 8,477
Net income (loss)		(176)	7,033
Dividends declared	10(c)	(9,969)	(9,876)
Balance, end of period		\$ 5,466	\$ 5,634
Total shareholders' equity and non-controlling interest		\$ 469,970	\$ 445,245

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Midstream and Infrastructure Ltd.
Consolidated Statements of Cash Flows (unaudited)

(all tabular amounts expressed in thousands of Canadian dollars)

	Notes	Three months ended		Nine months ended	
		September 30,		September 30,	
		2019	2018	2019	2018
Cash provided by (used in):					
Operating activities					
Net income (loss) for the period		\$ 10,677	\$ (1,453)	\$ (1,195)	\$ 6,176
Adjustments:					
Non-cash share-based compensation		1,445	2,738	6,033	3,967
Depreciation		17,552	10,697	46,380	31,874
Interest and financing charges	12	4,075	2,097	8,100	5,244
Accretion	12	3,883	1,454	7,410	4,356
Unrealized loss (gain) on derivative contract		(17,647)	852	5,647	(1,299)
Unrealized gain (loss) on foreign exchange		525	-	(365)	-
Loss (income) from equity investment		(1,848)	196	(1,431)	78
Deferred income tax expense (recovery)		5,465	158	(4,016)	3,299
Loss (gain) on asset disposal		(2,069)	(102)	(3,353)	72
Purchase of linefill		-	-	(6,572)	-
Decommissioning costs incurred	8	(183)	(686)	(3,111)	(1,942)
Changes in non-cash working capital	15	(24,279)	(8,700)	(30,226)	(52,842)
<i>Net cash provided by (used in) operating activities</i>		(2,404)	7,251	23,301	(1,017)
Financing activities					
Advances of bank debt		13,350	51,050	108,400	121,050
Payment of lease liabilities and other		(6,318)	-	(12,580)	-
Sublease payments received		296	-	468	-
Change in contribution liability and other		-	-	192,500	-
Interest and financing charges paid, net		(3,554)	(271)	(7,587)	(3,200)
Proceeds from issuance of common shares, net		(112)	24	(68)	22
Proceeds from issuance of convertible debentures, net		71,805	-	71,805	-
Payment of dividends		(3,311)	(3,292)	(9,928)	(9,873)
Proceeds from issuance of common shares related to non-controlling interest		-	-	-	2,678
<i>Net cash provided by financing activities</i>		72,156	47,511	343,010	110,677
Investing activities					
Additions to property, plant and equipment		(80,456)	(75,346)	(423,743)	(194,567)
Proceeds received on contribution to joint venture	4	30,000	-	30,000	-
Proceeds from asset disposal		5,069	121	11,629	594
Contributions to investment in equity accounted investee		-	(87)	-	(2,587)
Changes in non-cash working capital	15	(24,592)	12,348	14,750	49,069
<i>Net cash used in investing activities</i>		(69,979)	(62,964)	(367,364)	(147,491)
Increase (decrease) in cash		(227)	(8,202)	(1,053)	(37,831)
Cash at beginning of period		5,141	22,865	5,967	52,494
Cash at end of period		\$ 4,914	\$ 14,663	\$ 4,914	\$ 14,663

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 months ended September 30, 2019 and 2018 (unaudited)

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

1. REPORTING ENTITY

Tidewater Midstream and Infrastructure Ltd.'s ("Tidewater" or the "Corporation") 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. To complement its asset base, the Corporation also markets NGL products and services to customers across North America.

The Corporation's principal place of business is Suite 900, 222 – 3rd Ave SW, Calgary, Alberta, Canada, T2P 0B4. The Corporation's common shares trade on the Toronto Stock Exchange under the symbol "TWM".

Tidewater operates its business through a number of wholly-owned subsidiaries including Tidewater Propane Inc., Tidewater Logistics Ltd., Tidewater Pipelines Ltd. and Tidewater Midstream (US) Ltd.

The Corporation also has joint venture interests in Tidewater Brazeau Gas Storage LP and Tidewater Pipestone Infrastructure LP, and a joint operation in Pioneer Pipeline LP (note 4).

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, 2018, other than those for which the transition is specified by the adoption of a new IFRS standard and included below. These condensed interim consolidated financial statements as at and for the three and nine-month periods ended September 30, 2019 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 year ended December 31, 2018.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 12, 2019.

b) Changes in accounting policies

i) IFRS 16, "Leases"

The Corporation adopted IFRS 16, "Leases" effective January 1, 2019. IFRS 16 replaced lease guidance previously applicable under IAS 17, "Leases". Under IAS 17, leases were required to be classified as 'operating' or 'finance' based on whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. 'Operating' leases were recognized in the consolidated statement of net income (loss) and comprehensive income (loss), while 'finance' leases were recognized on the consolidated statement of financial position. Under IAS 17, the majority of the Corporation's leases were classified as 'operating'.

IFRS 16 introduced new requirements with respect to lease accounting and introduced a new lease definition that increased the focus on control of the underlying asset, requiring the recognition of a right-of-use asset and a corresponding lease liability at commencement for all leases. As a result, the Corporation now recognizes right-of-use assets representing its right to use the underlying assets and corresponding lease liabilities representing its obligation to make payments to use the assets.

At the option of the Corporation, leases of low value assets and short-term leases may be excluded from recognition under IFRS 16. For arrangements where the Corporation subleases a portion of a leased asset to an external party, a lease receivable and corresponding reduction to the right-of-use assets are recognized. On the consolidated statement of net income (loss) and comprehensive income (loss), lease expenses are recognized consisting of two components; depreciation expense of the right-of-use assets (included in 'depreciation') and

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interest expense related to the lease liabilities (included in ‘finance costs and other’).

Tidewater adopted IFRS 16 using the modified retrospective approach. Under this approach, the standard is applied retrospectively, with the cumulative effect of adoption recognized as a cumulative adjustment to lease liabilities and right-of-use assets measured at the amount equal to the associated lease liabilities with no restatement of prior period financial information and no impact to retained earnings. The Corporation applied the following optional expedients when adopting IFRS 16:

- Leases of low-value assets were exempt from recognition in the lease liabilities and right-of-use assets under IFRS 16.
- Leases with terms of 12 months or less at their commencement date were exempt from recognition in the lease liabilities and right-of-use assets under IFRS 16.
- Where practical to do so, IFRS 16 was applied to a portfolio of leases with similar characteristics rather than on a lease-by-lease basis.

The majority of Tidewater’s right-of-use assets recognized under IFRS 16 are related to office leases, rail cars, vehicles, field equipment and surface leases. The Corporation discounted the lease payments using the Corporation’s incremental credit-risk adjusted borrowing rate of approximately 6.5%. The adoption of IFRS 16 resulted in the following adjustments on its statement of financial position recognized at January 1, 2019:

	January 1, 2019
Finance lease receivable	\$ 630
Right-of-use assets	\$ 17,376
Lease liabilities (current and non-current)	\$ (18,006)

Reconciliation of lease liabilities:

Lease commitments disclosed at December 31, 2018	\$ 53,602
Surface leases and other recognized as right-of-use assets	4,209
Non-lease components	(38,853)
Total undiscounted lease payments	\$ 18,958
Discounting impact	(952)
Lease liabilities recognized as at January 1, 2019	\$ 18,006

Subsequent to the initial adoption of IFRS 16, the Corporation assesses each new contract to determine whether it contains a lease. A specific asset is the subject of a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation allocates contract consideration to the lease and non-lease components on the basis of their relative stand-alone prices. Key judgments include whether a contract identifies an asset (or a portion of an asset), whether the lessee obtains substantially all of the economic benefits of the asset over the contract term, whether the lessee has the right to direct the asset’s use, which components are fixed or variable in nature and the discount rate. The Corporation applied its incremental borrowing rate for leases where the implicit rate cannot be readily determined.

The lease liability and initial right-of-use asset are recognized at the lease commencement date measured on the present value of fixed lease payments (including in-substance fixed payments) plus the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, discounted at a rate the Corporation would be required to borrow over a similar term. After initial recognition, the lease liability is accreted for the passage of time and reduced for lease settlements made during each period. After initial recognition, the right-of-use asset is depreciated on a straight-line basis over the term of the lease.

The Corporation’s subleases are classified as finance leases in reference to the right-of-use asset arising from its head office lease. Assets under finance leases are recognized in finance lease receivables at the value of the net investment in the lease. The net investment in the lease is measured at the net present value of the future amounts receivable, discounted using the interest rate implicit in the lease. Finance income is recognized over the lease term in a pattern reflecting a consistent rate of return on the finance lease receivable.

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For leases denominated in a currency other than the Corporation's functional currency, the lease liability is considered a monetary item and is revalued at each reporting date. The right-of-use asset is considered a non-monetary item and is reported using the exchange rate at the lease commencement date.

ii) *Jointly controlled operations*

The Corporation may conduct certain activities through jointly controlled operations. The consolidated financial statements reflect only Tidewater's rights to assets and obligations for liabilities in such activities. Joint control exists for contractual arrangements governing Tidewater's assets whereby Tidewater has less than 100% working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties who collectively control the arrangement and share the associated risks. The Corporation consolidates all joint operations in line with its rights to assets and obligation for liabilities as follows:

- in the consolidated statement of financial position for the Corporation's share of the assets held jointly and the liabilities for which it is jointly responsible; and
- in the consolidated statements of net income (loss) and comprehensive income (loss) for the Corporation's share of the income and expenses generated by the jointly controlled operation.

The following critical judgements and estimates are associated with the Corporation's jointly controlled operation:

The classification of joint arrangements as a jointly controlled operation requires management to make judgements on the interpretation of how the joint arrangement is structured and any other facts and circumstances which give the parties right to the assets and obligations for the liabilities relating to the joint arrangement. The Corporation and TransAlta Corporation ("TransAlta") each own 50% of Pioneer Pipeline LP, which has been accounted for as a jointly controlled operation. In the classification of Pioneer Pipeline LP as a jointly controlled operation, management has made significant judgements in the interpretation of what "the parties" means in the assessment of "other facts and circumstances" and the requirement for "the parties" to take significantly all of the output. Management had concluded that both parties collectively have the right to substantially all of the economic benefits of the assets through their collective contractual arrangement for TransAlta to be the sole customer of Pioneer Pipeline LP. Based on the contractual terms of the agreements, Tidewater's management determined its share of the joint operation is best reflected by its economic interest.

3. RIGHT-OF-USE ASSETS

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

	Rail cars	Office leases	Field equipment and surface leases	Total
COSTS				
Balance, December 31, 2018	\$ -	\$ -	\$ -	\$ -
Initial recognition (note 2)	8,476	3,294	6,236	18,006
Additions	46,509	350	3,079	49,938
Subleases	(1,037)	(630)	-	(1,667)
Lease terminations	-	-	(13)	(13)
Balance, September 30, 2019	\$ 53,948	\$ 3,014	\$ 9,302	\$ 66,264
ACCUMULATED DEPRECIATION				
Balance, December 31, 2018	\$ -	\$ -	\$ -	\$ -
Depreciation	6,838	681	2,537	10,056
Balance, September 30, 2019	\$ 6,838	\$ 681	\$ 2,537	\$ 10,056
NET BOOK VALUE				
September 30, 2019	\$ 47,110	\$ 2,333	\$ 6,765	\$ 56,208

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4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

	Plant and infrastructure	Assets under construction	Other	Total
COSTS				
Balance, December 31, 2017	\$ 735,948	\$ 88,141	\$ 24,493	\$ 848,582
Additions	60,648	243,805	20,514	324,967
Completed projects	21,167	(21,167)	-	-
Disposals	(130)	-	(742)	(872)
Decommissioning asset	17,107	-	-	17,107
Balance, December 31, 2018	\$ 834,740	\$ 310,779	\$ 44,265	\$ 1,189,784
Additions	66,648	353,661	5,596	425,905
Completed projects	619,194	(619,194)	-	-
Movement of contribution liability	(122,500)	-	-	(122,500)
Contributions to joint venture	(53,111)	(272)	(1,704)	(55,087)
Proceeds on contribution to joint venture	(30,000)	-	-	(30,000)
Disposals	(7,254)	-	(258)	(7,512)
Decommissioning asset	19,462	-	-	19,462
Balance, September 30, 2019	\$ 1,327,179	\$ 44,974	\$ 47,899	\$ 1,420,052
ACCUMULATED DEPRECIATION				
Balance, December 31, 2017	\$ 32,096	\$ -	\$ 2,663	\$ 34,759
Depreciation	40,008	-	5,666	45,674
Disposals	(130)	-	(60)	(190)
Balance, December 31, 2018	\$ 71,974	\$ -	\$ 8,269	\$ 80,243
Depreciation	30,732	-	5,592	36,324
Contributions to joint venture	(1,675)	-	-	(1,675)
Disposals	(449)	-	(51)	(500)
Balance, September 30, 2019	\$ 100,582	\$ -	\$ 13,810	\$ 114,392

	Plant and infrastructure	Assets under construction	Other	Total
NET BOOK VALUE				
December 31, 2018	\$ 762,766	\$ 310,779	\$ 35,996	\$ 1,109,541
September 30, 2019	\$ 1,226,597	\$ 44,974	\$ 34,089	\$ 1,305,660

On September 28, 2018, the Corporation entered into definitive agreements for the construction, operation and tolls payable with respect to a pipeline connecting the Corporation's Brazeau River Complex to TransAlta's generating units at Sundance and Keephills, Alberta (the "Pioneer Pipeline"). On December 17, 2018, TransAlta exercised its option to acquire a 50% ownership interest in the Pioneer Pipeline. TransAlta contributed \$97.5 million towards the Pioneer Pipeline comprised of the contribution paid to March 31, 2019 of \$65.4 million and a further contribution of \$32.1 million paid to June 30, 2019. The transaction closed in May 2019. Following closing, the Corporation and TransAlta each own 50% of the Pioneer Pipeline through a limited partnership, Pioneer Pipeline LP. Pioneer Pipeline LP will carry on the business of owning, developing, constructing and operating the Pioneer Pipeline under the governance of Tidewater and TransAlta.

On March 22, 2019, the Corporation entered into a purchase and sale agreement whereby the Corporation divested its cogeneration units located at one of its gas plants under construction to a privately held power developer focused on thermal generation in Canada. Under the terms of the sale, the Corporation received cash proceeds of \$85.0 million. In conjunction with the divestiture, the Corporation entered into a long-term energy services agreement whereby the power developer will supply power to the Corporation's gas plant once construction is complete in exchange for fixed energy fee payments. The Corporation has an option, at its discretion, to repurchase the asset within the next 15 years at various prices. The power developer also has a put option, at its discretion, to sell the asset back to the Corporation exercisable only at the end of December 31, 2034. As a result of the call and put option, in accordance with IFRS 15, "Revenue from Contracts with Customers", the Corporation has retained control of the asset and therefore continues

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to recognize the asset as part of its property, plant and equipment with a corresponding amount included in lease liabilities and other.

During the third quarter of 2019, Tidewater contributed \$108.4 million of gas storage assets and \$3.3 million of associated decommissioning liabilities located near the Pipestone Gas Plant into a limited partnership, Tidewater Pipestone Infrastructure LP (the “Pipestone Gas Storage Facility”), in exchange for cash and units. The Corporation recognized an investment of \$50.1 million and received \$55.0 million cash consideration, of which \$25.0 million was recognized as a contribution liability at June 30, 2019. In conjunction with the contribution, the Pipestone Gas Storage Facility closed a \$30 million non-recourse project finance credit facility. Tidewater will retain 85% of the cashflows after interest, credit facility amortization payments and subordinated debenture payments to a joint venture partner. The Corporation’s interest in the Pipestone Gas Storage Facility is accounted for as a joint venture.

5. BANK DEBT

On March 29, 2019, the Corporation amended its existing credit facility (the “Senior Credit Facility”) with its banking syndicate of six Canadian Financial Institutions (the “Syndicate”). Pursuant to the Senior Credit Facility, total availability under the Corporation’s credit facility increased from \$325 million to \$350 million by accessing its accordion feature and amended its financial covenants.

Subsequent to September 30, 2019, and in conjunction with the acquisition disclosed in note 19, the Senior Credit Facility was further amended to increase total availability from \$350 million to \$600 million. The Senior Credit Facility matures on August 23, 2022, which may be further extended for a period of up to one year with the consent of the Syndicate.

Under the Senior Credit Facility, the Corporation is required to maintain certain financial covenants, including:

- a consolidated debt to consolidated adjusted EBITDA ratio of less than or equal to 5.50:1 for the fiscal quarter ending September 30, 2019; 5.00:1 for the fiscal quarter ending December 31, 2019; and 4.50 for the fiscal quarters ending March 31, 2020 and thereafter;
- a consolidated first lien senior debt to consolidated adjusted EBITDA ratio of less than or equal to 4.00:1 for the fiscal quarter ending September 30, 2019; and 3.50:1 for the fiscal quarters ending December 31, 2019 and thereafter; and
- a consolidated EBITDA to interest coverage ratio greater than or equal to 2.50:1.

At September 30, 2019, the Corporation was in compliance with its financial covenants, reporting consolidated debt to consolidated adjusted EBITDA ratio of 3.44 (December 31, 2018 – 4.26), consolidated first lien senior debt to consolidated adjusted EBITDA ratio of 2.39 (December 31, 2018 – 2.81), and consolidated EBITDA to interest coverage ratio of 4.38. As part of the September 30, 2019 financial covenants, the Corporation included additional pro forma first and second lien debt of \$277.5 million and trailing twelve-month adjusted EBITDA of \$100 million as a result of the acquisition as disclosed in note 19.

Advances on the Senior Credit Facility may be made by way of prime rate loans, bankers’ acceptances, or standby letters of credit/guarantees. The Senior Credit Facility bears interest at a bank’s prime rate or bankers’ acceptance rate, depending on the type of advance, plus an applicable margin of 125bps to 250bps on prime rate loans, 225bps to 350bps of stamping fees related to banker’s acceptances, and 45bps to 70bps for standby fees as determined by reference to the Corporation’s consolidated debt to adjusted EBITDA ratio (as defined in the Senior Credit Facility agreement).

The Corporation may include up to 15% of projected annual adjusted EBITDA attributable to material projects currently under construction based on certain criteria. Adjusted EBITDA is defined under the Senior 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 first and second lien debt and notes payable and consolidated senior first lien debt is defined as senior debt (excluding second lien debt). Interest coverage ratio is calculated as adjusted EBITDA divided by interest expense prior to capitalized interest.

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Subsequent to September 30, 2019 and in conjunction with the acquisition disclosed in note 19, Tidewater entered into a credit agreement that established a \$100 million second lien term loan (“Junior Debt”), subordinated to the Senior Credit Facility, which provided for only a single draw on the facility at the closing of the acquisition. The credit facility matures on October 31, 2022 and can be repaid prior to maturity with net proceeds from an issuance of equity or equity like securities or high yield instruments. The amount borrowed under this facility bears interest at a bankers' acceptance rate + 450 bps stamping fee. Interest on the Junior Debt will increase at a rate of 50 bps per quarter to a maximum of the bankers' acceptance rate + 750 bps stamping fee. The Junior Debt is subject to the same financial covenants as the Senior Credit Facility.

At September 30, 2019, the Corporation had \$24.4 million of letters of credit outstanding (December 31, 2018 – \$17.6 million).

6. NOTES PAYABLE

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. Accrued interest payable at September 30, 2019 was \$2.4 million (December 31, 2018 - \$0.3 million). The Corporation incurred deferred financing costs of \$2.6 million which are amortized using the effective interest rate method over the remaining term of the debt.

7. CONVERTIBLE DEBENTURES

	Number of convertible debentures		Liability component		Equity component
Balance, December 31, 2018	-	\$	-	\$	-
Issuance of convertible debentures	75		68,251		6,749
Issue costs	-		(2,908)		(287)
Deferred income tax liability	-		-		(1,551)
Unwinding of discount	-		218		-
Balance, September 30, 2019	75	\$	65,561	\$	4,911

On August 8, 2019, the Corporation issued convertible subordinated unsecured debentures (the “Debentures”) for a principal amount of \$75.0 million at a price of \$1,000 per Debenture. The Debentures mature on September 30, 2024 and accrue interest at the rate of 5.5% per annum payable semi-annually commencing on March 31, 2020. Accrued interest payable at September 30, 2019 was \$0.6 million.

At the holder’s option, the Debentures will be convertible into Common Shares at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, or (ii) if called for redemption, the date fixed for redemption by the Corporation, at a conversion price of \$1.86 per Common Share, subject to adjustments in certain events. The Debentures may be redeemed by the Corporation after September 30, 2022, subject to certain adjustments and conditions. The Debentures will be subordinated to any senior indebtedness of the Corporation.

The liability component of the Debentures was initially recognized at the fair value of a similar liability which does not contain an equity conversion option, based on an estimated market interest rate of 7.5%. The difference between the \$75 million principal amount of the Debentures and the fair value of the liability component was recognized in Shareholders’ equity, net of deferred income taxes. Total transaction costs directly attributable to the offering of \$3.2 million were allocated proportionately to the liability and equity components of the Debentures. Accretion of the liability component and accrued interest payable on the Debentures are included as financing costs. The fair value of the Debentures at September 30, 2019 was \$73.7 million using quoted market prices on the TSX (level 1 fair value).

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8. DECOMMISSIONING OBLIGATION

The decommissioning obligation reflects the discounted cash flows expected to be incurred to decommission the Corporation's pipeline systems, gas processing and fractionation plants, storage facilities and upstream production. The estimated economic lives of assets covered by the decommissioning provision range up to 60 years. The obligation was discounted using a forecasted range of long term government of Canada bond rates based on expected timing of abandonment.

The following table summarizes changes in the decommissioning obligations:

	September 30, 2019	December 31, 2018
Balance, beginning of period	\$ 206,934	\$ 187,686
Acquisitions and additions	15,598	1,590
Contributions to joint venture (note 4)	(3,323)	-
Disposals	(1,982)	-
Decommissioning costs incurred	(3,111)	(2,348)
Change in discount rate and estimates	3,864	15,517
Unwinding of discount included in finance costs	3,360	4,489
Balance, end of period	\$ 221,340	\$ 206,934

9. LEASE LIABILITIES

The Corporation's lease liabilities and other primarily relate to office leases, rail cars, vehicles, field equipment and surface leases for the Corporation's facilities and energy service arrangements. The Corporation has excluded certain leases relating to low-value assets and leases with terms less than 12 months.

Undiscounted payments associated with lease liabilities and other as at September 30, 2019 are summarized below:

	Within one year	After one year but not more than five years	More than five years	Total
Rail car leases	\$ 16,566	\$ 30,605	\$ 9,415	\$ 56,586
Office and building leases	1,155	2,017	-	3,172
Field equipment, surface leases and other ⁽¹⁾	9,888	32,625	103,936	146,449
Total	\$ 27,609	\$ 65,247	\$ 113,351	\$ 206,207

⁽¹⁾ Includes the energy service fees related to the cogeneration units as described in note 4.

The total amount of undiscounted future cash flows associated with leases not included in leases liabilities and other, to which the Corporation is committed but have not yet commenced as at September 30, 2019, was \$11.8 million.

10. SHARE CAPITAL

a) Authorized

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

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b) Issued and outstanding common shares

	September 30, 2019		December 31, 2018	
	Number of Shares (000s)	Amount	Number of Shares (000s)	Amount
Balance, beginning of period	330,797	\$ 433,714	328,973	\$ 431,148
Issue of common shares – long term incentive plan	319	436	1,824	2,568
Issue of common shares – asset purchase	3,750	4,313		
Share issuance costs (net of tax)	-	(15)	-	(2)
Balance, end of period	334,866	\$ 438,448	330,797	\$ 433,714

c) Dividends to shareholders

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Dividends declared on common shares	\$ 3,349	\$ 3,293	\$ 9,969	\$ 9,876
Dividends declared per share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03

As at September 30, 2019, dividends of \$3.3 million were payable on 334.9 million outstanding common shares at \$0.01 per share (December 31, 2018 - \$3.3 million payable on 330.8 million outstanding common shares at \$0.01 per share). The dividends were paid on October 31, 2019.

11. REVENUE AND OPERATING EXPENSES

For the three and nine months ended September 30, 2019 and 2018, the Corporation had 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. The midstream and infrastructure operating segments includes the following revenue categories: gas gathering, processing and transportation; NGL/crude marketing and extraction; and other. Amounts disclosed below do not include realized or unrealized gains and losses on derivative contracts resulting from the Corporation's commodity price risk management initiatives.

	Gathering, processing and transportation		NGL/crude marketing and extraction		Other	Total
Three months ended September 30, 2019						
Revenue (before intercompany eliminations)	\$ 40,291	\$ 110,980	\$ 13,173	\$ 164,444		
Intercompany eliminations	(8,510)	(486)	(8,403)	(17,399)		
Revenue from external customers	\$ 31,781	\$ 110,494	\$ 4,770	\$ 147,045		
Operating expenses (before intercompany eliminations)	\$ 19,809	\$ 117,958	\$ 14,894	\$ 152,661		
Intercompany eliminations	-	(14,058)	(3,341)	(17,399)		
Operating expenses from external vendors	\$ 19,809	\$ 103,900	\$ 11,553	\$ 135,262		

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		Gathering, processing and transportation	NGL/crude marketing and extraction	Other	Total
Three months ended September 30, 2018					
Revenue (before intercompany eliminations)	\$	36,738	\$ 45,503	\$ 13,542	\$ 95,783
Intercompany eliminations		(6,327)	(1,615)	(7,739)	(15,681)
Revenue from external customers	\$	30,411	\$ 43,888	\$ 5,803	\$ 80,102
<hr/>					
Operating expenses (before intercompany eliminations)	\$	18,949	\$ 43,330	\$ 12,202	\$ 74,481
Intercompany eliminations		-	(11,998)	(3,683)	(15,681)
Operating expenses from external vendors	\$	18,949	\$ 31,332	\$ 8,519	\$ 58,800
<hr/>					
Nine months ended September 30, 2019					
Revenue (before intercompany eliminations)	\$	114,040	\$ 323,022	\$ 42,159	\$ 479,221
Intercompany eliminations		(24,641)	(2,548)	(26,011)	(53,200)
Revenue from external customers	\$	89,399	\$ 320,474	\$ 16,148	\$ 426,021
<hr/>					
Operating expenses (before intercompany eliminations)	\$	49,471	\$ 341,508	\$ 42,455	\$ 433,434
Intercompany eliminations		-	(40,968)	(12,232)	(53,200)
Operating expenses from external vendors	\$	49,471	\$ 300,540	\$ 30,223	\$ 380,234
<hr/>					
Nine months ended September 30, 2018					
Revenue (before intercompany eliminations)	\$	108,691	\$ 130,553	\$ 39,526	\$ 278,770
Intercompany eliminations		(18,846)	(6,254)	(20,120)	(45,220)
Revenue from external customers	\$	89,845	\$ 124,299	\$ 19,406	\$ 233,550
<hr/>					
Operating expenses (before intercompany eliminations)	\$	56,265	\$ 120,357	\$ 35,131	\$ 211,753
Intercompany eliminations		-	(30,902)	(14,318)	(45,220)
Operating expenses from external vendors	\$	56,265	\$ 89,455	\$ 20,813	\$ 166,533

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12. FINANCE COSTS AND OTHER

Finance costs and other is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest on bank debt and notes payable	\$ 6,476	\$ 4,197	\$ 20,001	\$ 11,544
Interest on convertible debentures	599	-	599	-
Interest capitalized ⁽¹⁾	(3,000)	(2,100)	(12,500)	(6,300)
Total interest expense	4,075	2,097	8,100	5,244
Foreign exchange (gains) losses and other	779	223	629	(720)
Total finance costs and other before accretion	\$ 4,854	\$ 2,320	\$ 8,729	\$ 4,524
Unwinding of discount on decommissioning obligation	1,112	1,151	3,360	3,352
Unwinding of discount on long-term debt	297	199	873	732
Unwinding of discount on convertible debentures	218	-	218	-
Unwinding of discount on lease liabilities, lease receivable and other	2,214	-	3,206	-
Other	42	104	(247)	272
Accretion	3,883	1,454	7,410	4,356
Total finance costs and other	\$ 8,737	\$ 3,774	\$ 16,139	\$ 8,880

⁽¹⁾ For the three and nine months ended September 30, 2019, interest was capitalized at a weighted average annualized capitalization rate of approximately 6.5% respectively on funds borrowed (three and nine months ended September 30, 2018 – 7% annualized).

13. SHARE-BASED COMPENSATION

For the three and nine months ended September 30, 2019, the Corporation recorded share-based compensation expense of \$1.7 million (three months ended September 30, 2018 - \$3.0 million) and \$7.4 million (nine months ended September 30, 2018 - \$5.2 million), respectively.

a) Stock Options

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

	September 30, 2019		September 30, 2018	
	Number of Options (000s)	Weighted average exercise price	Number of Options (000s)	Weighted average exercise price
Outstanding, beginning of period	11,476	\$ 1.39	6,615	\$ 1.42
Granted	2,416	1.41	2,737	1.37
Exercised	(26)	1.39	(16)	1.38
Forfeited	(879)	1.37	(191)	1.39
Outstanding, end of period	12,987	\$ 1.39	9,145	\$ 1.40

For the three and nine months ended September 30, 2019, the share-based compensation expense relating to stock options was \$0.5 million (three months ended September 30, 2018 – \$0.4 million) and \$1.5 million (nine months ended September 30, 2018 - \$1.2 million), respectively.

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b) RSU Plan

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

<i>(in thousands)</i>	September 30,	
	2019	2018
Outstanding, beginning of period	10,265	8,871
Granted	1,966	2,403
Exercised	(456)	(323)
Forfeited	(620)	(65)
Outstanding, end of period	11,155	10,886
Exercisable, end of period	5,130	5,247

For the three and nine months ended September 30, 2019, the share-based compensation expense relating to RSUs was \$0.8 million (three months ended September 30, 2018 - \$2.2 million) and \$4.4 million (nine months ended September 30, 2018 - \$2.8 million), respectively.

Effective May 14, 2019, the restricted share unit plan was amended and all outstanding RSUs were modified to be settled by either cash or equity at the sole discretion of the Corporation. As a result of this modification, \$9.7 million of current incentive compensation liabilities and \$1.4 million of long-term incentive compensation liabilities were reclassified to employee share reserve.

c) PSU Plan

The following table summarizes the PSUs outstanding:

	September 30,	
	2019	2018
Balance, beginning of period	\$ 1,389	\$ 1,336
Granted	312	473
Exercised	(380)	(688)
Forfeited	(102)	(28)
Balance, end of period	\$ 1,219	\$ 1,093

The PSUs issued to participants are held by the plan trustee and have been recorded as an employee share reserve. For the three and nine months ended September 30, 2019, the share-based compensation expense relating to PSUs was \$0.1 million (three months ended September 30, 2018 - \$0.2 million) and \$0.5 million (nine months ended September 30, 2018 - \$0.5 million), respectively.

d) DSU Plan

The following table summarizes the DSUs outstanding:

<i>(in thousands)</i>	September 30,	
	2019	2018
Outstanding, beginning of period	70	-
Granted	71	-
Outstanding, end of period	141	-

For the three and nine months ended September 30, 2019, the share-based compensation expense relating to DSUs was \$0.1 million and NIL, respectively (three and nine months ended September 30, 2018 - NIL).

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e) Employee Stock Purchase Plan

During the three and nine months ended September 30, 2019, the share-based compensation expense relating to the ESPP was \$0.2 million (three months ended September 30, 2018 – \$0.2 million) and \$0.9 million (nine months ended September 30, 2018 - \$0.7 million), respectively.

14. NET INCOME (LOSS) PER SHARE

	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Net income	Common shares (000s)	Net income per share	Net loss	Common shares (000s)	Net loss per share
Net income (loss) attributable to shareholders - basic	\$ 11,045	333,089	\$ 0.03	\$ (988)	329,193	\$ (0.00)
Dilutive effect of share awards	-	11,263	-	-	10,905	-
Dilutive effect of convertible debentures	461	69,444	-	-	-	-
Net income (loss) attributable to shareholders - diluted	\$ 11,506	413,796	\$ 0.03	\$ (988)	340,098	\$ (0.00)

For the three months ended September 30, 2019, 13.0 million share awards were anti-dilutive (three months ended September 30, 2018 – 7.6 million share awards and nil related to convertible debentures).

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Net loss	Common shares (000s)	Net loss per share	Net income	Common shares (000s)	Net income per share
Net loss attributable to shareholders - basic	\$ (176)	331,664	\$ (0.00)	\$ 7,033	329,153	\$ 0.02
Dilutive effect of share awards	-	11,330	-	-	10,965	-
Net loss attributable to shareholders - diluted	\$ (176)	342,994	\$ (0.00)	\$ 7,033	340,118	\$ 0.02

For the nine months ended September 30, 2019, 11.6 million share awards and 40.3 million shares related to convertible debentures were anti-dilutive (nine months ended September 30, 2018 – 7.8 million and nil).

15. SUPPLEMENTAL CASH FLOWS INFORMATION

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Accounts receivable	\$ (15,062)	\$ (14,026)	\$ (29,577)	\$ (25,799)
Prepaid expenses and other	2,535	(1,710)	(8,892)	(4,513)
Inventory	779	(3,233)	(7,561)	(2,607)
Accounts payable and accrued liabilities	(12,531)	10,269	15,804	(19,923)
Change in non-cash working capital from operating activities	\$ (24,279)	\$ (8,700)	\$ (30,226)	\$ (52,842)

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Details of changes in non-cash working capital from investing activities were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Accounts receivable	\$ 1,279	\$ -	\$ (836)	\$ -
Prepaid expenses and other	598	399	1,185	(4,349)
Inventory	-	-	-	-
Accounts payable and accrued liabilities	(26,469)	11,949	14,401	53,418
Change in non-cash working capital from investing activities	\$ (24,592)	\$ 12,348	\$ 14,750	\$ 49,069

b) Interest paid

During the three and nine months ended September 30, 2019, total interest and financing charges paid was \$4.3 million (three months ended September 30, 2018 - \$1.9 million) and \$17.9 million (nine months ended September 30, 2018 - \$13.8 million), respectively.

16. COMMITMENTS

The Corporation had the following contractual obligations and commitments, excluding those recognized as leases (note 9), as at September 30, 2019:

	Within one year	After one year but not more than five years	More than five years	Total
Notes payable interest ⁽¹⁾	\$ 8,443	\$ 18,695	\$ -	\$ 27,138
Notes payable repayments ⁽²⁾	-	125,000	-	125,000
Bank debt ⁽²⁾	-	333,400	-	333,400
Convertible debentures interest ⁽³⁾	4,735	16,511	-	21,246
Convertible debentures repayment ⁽³⁾	-	75,000	-	75,000
Firm transportation contracts	12,078	46,566	48,533	107,177
Total	\$ 25,256	\$ 615,172	\$ 48,533	\$ 688,961

⁽¹⁾ Fixed interest payments on notes payable

⁽²⁾ Repayment of notes payable of \$125 million. The Corporation's revolving bank debt is due August 23, 2021.

⁽³⁾ Convertible debentures mature on September 30, 2024. Interest may be paid in common shares of the Corporation.

17. 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. 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, and the Corporation's objectives, policies and processes for measuring and managing these risks.

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a) Fair value determination

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

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

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

The Corporation has used Level 2 to determine the fair value of its investments and derivative contracts. The fair value is derived with reference to commodity and currency price curves.

At September 30, 2019, the fair value of cash, accounts receivable, accounts payable and accrued liabilities, contribution liability and dividends payable approximated their carrying value due to their short-term maturity. The carrying value of the outstanding bank debt approximated its fair value due to the use of floating interest rates.

At September 30, 2019, the fair value of the Corporation's notes payable was approximately \$120.6 million and is based on third party estimates for similar issues or current rates offered to Tidewater for debt of the same maturity under Level 2 of the fair value hierarchy. Although the Corporation is not subject to cash flow risk with respect to its fixed interest rate payments, the fair value of the notes payable will be affected by changes in applicable market interest rates. As interest rates rise the fair value of the notes payable will decrease. The magnitude of the change will generally be greater for long-term loans than short-term loans.

b) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Corporation's accounts receivable from customers and joint interest partners. The maximum exposure to credit risk at September 30, 2019 and December 31, 2018 is as follows:

	September 30, 2019	December 31, 2018
Cash	\$ 4,914	\$ 5,967
Accounts receivable	118,944	88,669
Finance lease receivable	1,238	-
Derivative contracts – current	7,209	10,419
Derivative contracts – long term	912	1,302
	<u>\$ 133,217</u>	<u>\$ 106,357</u>

The Corporation's accounts receivable relates to amounts due from natural gas processing and NGL/crude marketing customers as well as the Corporation's joint interest partners. The Corporation reviews accounts receivable on a regular basis and uses an expected lifetime credit loss model for impairment.

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c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. 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 operating activities, and other sources of financing will be sufficient to meet its obligations and financial commitments and will provide sufficient funding for anticipated capital expenditures.

The following details the contractual maturities of the Corporation's financial liabilities as at September 30, 2019 and December 31, 2018:

	September 30, 2019		December 31, 2018	
	Less than one year	Greater than one year	Less than one year	Greater than one year
Accounts payable and accrued liabilities	\$ 183,400	\$ -	\$ 154,810	\$ -
Contribution liability	-	-	15,000	-
Derivative contracts	54	1,993	-	-
Dividend payable	3,349	-	3,308	-
Interest payable	3,003	-	312	-
Incentive compensation	-	-	6,830	1,512
Lease liabilities and other	26,476	116,756	-	-
Bank debt	-	333,400	-	225,000
Notes payable	-	122,688	-	122,208
Convertible debentures	-	65,561	-	-
	\$ 216,282	\$ 640,398	\$ 180,260	\$ 348,720

d) Market risk

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

a. Interest rate risk

Interest rate risk refers to the risk that the value of the financial instrument or cash flows associated with the financial instrument will fluctuate due to changes in market interest rates. The Corporation continuously monitors interest rates and economic conditions. At September 30, 2019, the Corporation had bank debt totalling \$333.4 million (September 30, 2018 - \$181.1 million) and therefore a 1% change in the interest rate on bank debt would have had an after-tax impact of \$1.9 million on net income (loss) for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - \$1.0 million).

b. Foreign currency exchange rate risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from certain working capital balances denominated in United States Dollars (USD). The Corporation continuously monitors exchange rate trends and economic conditions. At September 30, 2019, working capital balances denominated in USD were \$14.2 million (September 30, 2018 - \$1.9 million). A 5% change in foreign exchange rates between the USD and the Canadian Dollar would have an after-tax impact on net income (loss) of \$0.7 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - \$0.1 million).

c. *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 derivative contract asset and liability. A 10% change in commodity prices, related to the Corporation's derivative contracts liability, would have an after-tax impact on net income (loss) of \$1.7 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - \$0.2 million).

18. RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2019, the Corporation incurred the following related party transactions with private companies that have some shareholders and directors in common, Pioneer Pipeline LP, and its Joint Venture Partners:

- b) Earned revenue of \$0.8 million (three months ended September 30, 2018 - \$2.5 million) and \$7.9 million (nine months ended September 30, 2018 - \$7.0 million), respectively.
- c) Incurred operating expenses of \$1.5 million (three months ended September 30, 2018 - \$1.7 million) and \$8.5 million (nine months ended September 30, 2018 - \$2.9 million), respectively.

Of the total amount incurred, at September 30, 2019, \$3.2 million remains as net accounts receivable (December 31, 2018 - \$3.9 million) and \$0.1 million as net accounts payable (December 31, 2018 - nil). Cedar Creek Energy Ltd. ("Cedar Creek") ceased to be a related party during the three months ended September 30, 2019. Comparative disclosures and disclosures for the nine months ended September 30, 2019 include related party transactions and balances relating to Cedar Creek.

Transactions involving related parties are in the normal course of business and are recorded at market rates.

19. SUBSEQUENT EVENTS

On November 1, 2019, the Corporation closed its acquisition of Husky Energy Inc.'s ("Husky") 12.0 Mbbbl/d light oil refinery located in Prince George, British Columbia (the "Prince George Refinery") for cash consideration of \$277.5 million. The cash consideration is comprised of a \$215 million purchase price, inventory of \$53.4 million (primarily related to light oil feedstock, line fill and refined product storage), and taxes of \$9.1 million. The Corporation financed the acquisition through an increase of its existing Senior Credit Facility from \$350 million to \$600 million and a \$100 million second lien term loan as described in note 5.

Concurrent with the purchase of the Prince George Refinery, Tidewater entered into a five-year offtake agreement with Husky for 90% of the nameplate capacity on diesel and gasoline volumes produced at the Prince George Refinery. The offtake agreement reflects certain take-or-pay characteristics relating to committed volumes that Husky has agreed to purchase and contains pricing review mechanisms. The acquisition expands Tidewater's liquids value chain, consistent with its strategy.

As at the date that these consolidated financial statements were approved and authorized for issuance by the Board of Directors, initial accounting for the acquisition was incomplete and as such the value of the assets acquired and the liabilities assumed have not been disclosed. The Corporation will include the results of the Prince George Refinery in its consolidated results from November 1, 2019 onward.