



**TIDEWATER**  
Midstream and Infrastructure Ltd.

Management's Discussion and Analysis  
For the three and nine-month periods ended September 30, 2019

November 12, 2019

## 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, 2019 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, 2019 and 2018 (the "Financial Statements"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP").

Management is responsible for preparing the MD&A. The 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's common shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "TWM". Tidewater's 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 achieve its business objective, Tidewater is focused on 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, storage and downstream facilities. To complement its asset base, Tidewater also markets NGL and crude 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 process, store and transport the by-products of natural gas processing, including NGLs such as ethane, propane, butane and condensate.

On October 4, 2019, Tidewater announced that it had entered into a purchase and sale agreement to acquire the Prince George Refinery from Husky Energy Inc. for a base purchase price of \$215 million before closing adjustments. This strategic acquisition closed on November 1, 2019 and is expected to complement the Corporation's asset base, extending the value chain from Tidewater's Pipestone Gas Plant directly to the Prince George Refinery.

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).

### HIGHLIGHTS

- Tidewater generated strong Adjusted EBITDA in the third quarter of 2019 of \$25.5 million or \$0.08 per share, compared to \$17.3 million or \$0.05 per share in the third quarter of 2018.
- Net income attributable to shareholders increased to \$11.0 million or \$0.03 per share for the third quarter of 2019, compared to a net loss attributable to shareholders of \$1.0 million or \$0.00 per share for the third quarter of 2018.
- Net cash used in operating activities totaled \$2.4 million for the third quarter of 2019, with distributable cash flow of \$12.1 million and a payout ratio of 28% for the quarter and 25% for the nine months ended September 30, 2019.

- Tidewater successfully commissioned the 100 MMcf/day sour deep-cut gas processing complex (the "Pipestone Gas Plant") on time and on budget, and began processing customer gas in September 2019. The Pipestone Gas Plant is currently processing over 60 MMcf/day of natural gas and throughput continues to increase. Full capacity has been impacted due to construction delays on downstream third-party infrastructure.
- Throughput on the Pioneer Pipeline continued to increase through the third quarter of 2019, with volumes reaching approximately 130 MMcf/day in the first week of November 2019 under the 15-year take-or-pay commitment with TransAlta. Tidewater and TransAlta continue to work together on additional volume commitments on the pipeline.
- With the commissioning of the Pipestone Gas Plant, the Pipestone Gas Storage Facility saw its first injections from the gas plant in the quarter, as well as its first flows to Chicago through the recently commissioned Saskatoon Mountain meter station via Alliance Pipeline. The Pipestone Gas Storage Facility continues to exceed expectations and is poised for an active withdrawal season into a recently strengthened winter AECO market.
- On August 8, 2019, Tidewater closed the previously announced \$75 million bought-deal financing (the "Convertible Debenture Financing") of five-year convertible unsecured subordinated debentures (the "Debentures") with a syndicate of underwriters. The Debentures have a coupon of 5.5 percent per annum.
- On November 1, 2019, Tidewater closed the previously announced acquisition of the Prince George Refinery for cash consideration of \$215 million and approximately \$53 million related to the acquisition of crude inventory at the Prince George Refinery and approximately \$9 million in taxes and closing costs. The Prince George Refinery continues to demonstrate attractive operating economics.
- In conjunction with the closing of the Prince George Refinery acquisition, Tidewater closed an increase to its existing Credit Facility from \$350 million to \$600 million as well as a \$100 million second lien term loan maturing October 31, 2022.
- With the commissioning of the Pioneer Pipeline and Pipestone Gas Plant, expansion of the Pipestone Gas Storage facility, and the acquisition of the Prince George Refinery, Tidewater has transformed its customer and contract base through the addition of over ten new take-or-pay contracts ranging in term from five to fifteen years and including over five new investment-grade counterparties.
- With the substantial completion of the Corporation's 2019 capital program and forecasted increase in cash flows, Tidewater is committed to reducing overall leverage through 2020 back to its historical levels with a target of 3.0x to 3.5x Net Debt to Adjusted EBITDA by the end of 2020.

## FINANCIAL HIGHLIGHTS

<i>(in thousands of Canadian dollars except per share information)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 147,045	\$ 80,102	\$ 426,021	\$ 233,550
Net income (loss) attributable to shareholders	\$ 11,045	\$ (988)	\$ (176)	\$ 7,033
Basic and diluted net income (loss) attributable to shareholders per share	\$ 0.03	\$ (0.00)	\$ (0.00)	\$ 0.02
Adjusted EBITDA <sup>(1)</sup>	\$ 25,496	\$ 17,283	\$ 69,686	\$ 56,499
Adjusted EBITDA per common share - basic <sup>(1)</sup>	\$ 0.08	\$ 0.05	\$ 0.21	\$ 0.17
Net cash provided by (used in) operating activities	\$ (2,404)	\$ 7,251	\$ 23,301	\$ (1,017)
Distributable cash flow <sup>(1)</sup>	\$ 12,141	\$ 12,715	\$ 39,329	\$ 39,887
Distributable cash flow per common share – basic <sup>(1)</sup>	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12
Dividends declared	\$ 3,349	\$ 3,293	\$ 9,969	\$ 9,876
Dividends declared per common share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03
Total common shares outstanding (000s)	334,866	329,313	334,866	329,313
Payout ratio <sup>(1)</sup>	28%	26%	25%	25%
Total assets	\$ 1,585,551	\$ 1,093,936	\$ 1,585,551	\$ 1,093,936
Net debt <sup>(1)</sup>	\$ 526,174	\$ 288,464	\$ 526,174	\$ 288,464

(1) Refer to "Non-GAAP Measures"

## RESULTS OF OPERATIONS

<i>(in thousands of Canadian dollars except per share information)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 147,045	\$ 80,102	\$ 426,021	\$ 233,550
Operating expenses	\$ 135,262	\$ 58,800	\$ 380,234	\$ 166,533
General and administrative	\$ 3,637	\$ 2,794	\$ 10,231	\$ 7,606
Share-based compensation	\$ 1,656	\$ 2,981	\$ 7,361	\$ 5,160
Depreciation	\$ 17,552	\$ 10,697	\$ 46,380	\$ 31,874
Finance costs and other	\$ 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)
Deferred income tax expense (recovery)	\$ 5,465	\$ 158	\$ (4,016)	\$ 3,299
Net income (loss) attributable to shareholders	\$ 11,045	\$ (988)	\$ (176)	\$ 7,033
Basic and diluted net income (loss) attributable to shareholders per share	\$ 0.03	\$ (0.00)	\$ (0.00)	\$ 0.02

## ***Business overview***

Tidewater's operations are strategically located in three core, liquids-rich areas in the Western Canadian Sedimentary Basin (Deep Basin, Montney, and Edmonton). Tidewater views its midstream business as one integrated set of operations which consists of natural gas processing, NGL extraction, gas storage, crude oil and NGL terminalling infrastructure, and marketing to end-use markets through transmission pipelines, trucking and rail systems.

## ***Financial overview***

### *Revenue*

Revenue increased by 84% to \$147.0 million in the third quarter of 2019 compared to \$80.1 million as a result of continued NGL and crude oil marketing activity.

Net throughput volumes at Tidewater's gas processing and extraction facilities averaged approximately 347 MMcf/day during the third quarter of 2019, a 5% decrease compared to net throughput of approximately 364 MMcf/day for the same period of 2018. Gas storage throughput volumes at Tidewater's storage facilities are excluded above as they are a function of market conditions where customers pay fixed fees for the ability to inject and withdraw volumes but may not inject or withdraw on a given day. Tidewater's storage facilities operated at approximately 80% - 100% capacity in the third quarter of 2019 and 2018.

During the nine months ended September 30, 2019, Tidewater generated revenue of \$426.0 million, an increase of 82% compared to \$233.6 million for the same period in 2018. The period-over-period increase was mainly due to increased crude oil marketing activity. Net throughput volumes for the nine months ended September 30, 2019 averaged approximately 374 MMcf/day, a 3% decrease from 387 MMcf/day average net throughput volumes for the nine months ended September 30, 2018.

Despite the volatility of AECO prices, the Corporation's assets act as natural hedges in varying commodity price environments. Tidewater's gas storage and extraction assets perform well in low gas price environments, while gas gathering and processing perform better in medium to high price environments. Tidewater also engages in liquids blending, where it operates facilities at Brazeau, Acheson and Valhalla, allowing it to transport, process and blend various butane and condensate streams. Margins are earned by blending products of lower value into higher value products. As a result of these transactions, Tidewater takes advantage of the price and quality differentials between various product streams. Additionally, Tidewater is well positioned to serve NGL and crude oil markets due to its trucking and rail logistics infrastructure.

Overall, the integration of Tidewater's infrastructure means that it can take advantage of available resources to benefit from differentials in commodity prices through its processing facilities, fractionation, straddle, storage and transportation infrastructure.

### *Operating expenses*

Operating expenses for the third quarter of 2019 were \$135.3 million, an increase of 130% compared to \$58.8 million for the same period of 2018. Operating expenses for the nine months ended September 30, 2019 increased to by 128% to \$380.2 million compared to \$166.5 million for the same period in 2018. The increases in the 2019 periods were primarily due to the increased marketing cost of sales related to crude oil, driven by increased marketing activity as described above. The increased cost of sales was partially

offset by realized hedging gains related to the Corporation's risk management policy to minimize exposure from fluctuations in commodity prices.

#### *General and administrative*

General and administrative ("G&A") expenses for the three months ended September 30, 2019 were \$3.6 million, compared to \$2.8 million for the same period of 2018. G&A expenses for the nine months ended September 30, 2019 were \$10.2 million compared to \$7.6 million for the same period of 2018. The increases in G&A expenses between the 2019 and 2018 periods were primarily due to higher corporate employee costs driven by expansion of the Corporation's operations through organic growth. Higher employee costs include salaries related to employees added to support new and existing operations and to support future growth of the Corporation's asset base.

Non-recurring costs of \$0.2 million and \$0.8 million were included in G&A expenses for the three and nine months ended September 30, 2019, respectively, relating to one-time legal and severance costs incurred during 2019. Non-recurring costs of \$0.4 million and \$0.7 million were included in G&A expenses for the three and nine months ended September 30, 2018, respectively, relating to one-time legal costs and one-time asset evaluations associated with rights of first refusal during 2018.

#### *Share-based compensation*

Tidewater incurred share-based compensation expenses of \$1.7 million for the three months ended September 30, 2019, compared to \$3.0 million incurred in the same period of 2018. The decrease in share-based compensation expenses was primarily due to changes in the valuation of Tidewater's outstanding Restricted Share Units ("RSUs").

Prior to May 14, 2019, the Corporation's RSUs were accounted for using the liability accounting method whereby total outstanding RSUs were re-measured at each reporting date and at the date of settlement based on the closing price of the Corporation's common shares. On May 14, 2019, amendments to the Corporation's RSU Plan were approved by shareholders whereby RSUs under the amended RSU Plan may be settled in common shares of the Corporation or cash, at the sole discretion of the Corporation. As a result of the modification, RSUs are accounted for using the equity method, which does not require re-measurement. The outstanding RSUs were remeasured to the Corporation's closing share price at May 14, 2019, resulting in an increase to share based compensation expense. Following the May 14, 2019 revaluation, the balance of Tidewater's incentive liabilities was transferred to the employee share reserve. There was no cash impact as a result of the modification.

#### *Depreciation*

Depreciation for the three months ended September 30, 2019 was \$17.6 million, compared to \$10.7 million for the same period of 2018. The increase in depreciation in the 2019 period was largely due to \$4.8 million of depreciation associated with the Corporation's right-of-use assets (see "*Changes in Accounting Policies*"), mostly associated with the Corporation's leased rail cars.

Depreciation for the nine months ended September 30, 2019 was \$46.4 million compared to \$31.9 million for the same period of 2018. The primary cause for the increase in depreciation between the nine-month periods was \$10.1 million associated with the Corporation's right-of-use assets (see "*Changes in Accounting Policies*"), mostly relating to the Corporation's leased rail cars. Another factor contributing to the increase in depreciation period over period was the growth of the Corporation's asset base.

### *Finance costs and other*

Finance costs and other for the three months ended September 30, 2019 were \$8.7 million compared to \$3.8 million for the same period of 2018. Finance costs and other for the nine months ended September 30, 2019 were \$16.1 million compared to \$8.9 million for the same period of 2018. Higher finance costs and other during the three and nine-month periods of 2019 were primarily due to higher interest expense resulting from increased draws on the Corporation's credit facility related to its capital program, the issuance of convertible debentures during the third quarter, and accretion of lease liabilities associated with the 2019 adoption of IFRS 16. See "*Changes in Accounting Policies*" for further information on the adoption of IFRS 16 in 2019.

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

The Corporation uses physical and financial forward contracts to protect operating income and the value of its crude, natural gas and NGL inventories to mitigate volatility in commodity prices. Overall, the Corporation hedges between 50% to 100% of all commodity price exposure.

Realized gain on derivative contracts for the three months ended September 30, 2019 was \$15.3 million compared to a realized loss of \$1.4 million in the same period of 2018. Realized gain on derivative contracts for the nine months ended September 30, 2019 was \$31.9 million compared to a realized loss of \$3.5 million in the comparative period of 2018. The realized gains recognized in the 2019 periods were predominantly driven by crude oil hedges that were settled during the period, offset by cost of sales as the Corporation had previously locked in its marketing margins.

The Corporation's operating margin (defined as revenue less operating expenses) quarter-over-quarter has decreased as a result of market volatility. However, the resulting decrease is reduced by the realized gain on derivative contracts as it correlates the effect of the Corporation's risk management activities to the underlying operating activities to which they relate. The realized gain provides a good indication of the effectiveness of the Corporation's risk management strategy.

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

Unrealized non-cash gain on derivative contracts for the three months ended September 30, 2019 was \$17.6 million compared to an unrealized non-cash loss of \$0.9 million for the three months ended September 30, 2018. The positive variance is primarily due to a tightening in the WCS to WTI crude oil spread which increased the value of the WCS related derivative contracts. During the nine months ended September 30, 2019, the Corporation incurred an unrealized non-cash loss on derivative contracts of \$5.6 million compared to an unrealized non-cash gain of \$1.3 million during the same period of 2018. The unrealized loss was a result of the changes in the fair value of the derivative contracts between reporting periods. At September 30, 2019, the fair value of the Corporation's derivative contracts was a net asset of \$6.1 million as compared to a net asset of \$11.7 million at December 31, 2018. The increase in the price of crude oil at September 30, 2019 and settlement of crude oil hedged during the period reduced the asset position of the associated derivative contracts, compared to the higher asset position at December 31, 2018.

Tidewater's marketing business is impacted by commodity price fluctuations in the pricing differentials between product grades and geographic location. These fluctuations are managed by purchasing and selling physical and financial derivative contracts, which reduces commodity price exposure.

The fair value of the net derivative contract asset or liability is the estimated value to settle the outstanding contracts at a point in time. Accordingly, the unrealized gains or losses on these financial instruments are recorded directly to the income statement and can materially fluctuate quarter-over-quarter with price volatility. Unrealized gains and losses on derivative contracts do not impact net cash provided by operating activities or distributable cash flow. Actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions.

*Deferred income tax expense (recovery)*

Deferred income tax expense (recovery) is a non-cash tax item and was an expense of \$5.5 million for the three months ended September 30, 2019, compared to an expense of \$0.2 million for the three months ended September 30, 2018. The increase is primarily the result of higher net income before tax in the three months ended 2019 compared to the three months ended 2018. During the nine months ended September 30, 2019, the Corporation recognized a deferred income tax recovery of \$4.0 million compared to deferred income tax expense of \$3.3 million for the same period of 2018. The main cause for the recovery of deferred income tax in the nine months ended September 30, 2019 was the net loss before income tax compared to net income before tax for the comparative period of 2018, and a decrease in the Alberta corporate income tax rate from 12% in the first half of 2019 to 8% in 2022. The new tax rates were enacted on June 28, 2019.

*Net income (loss) attributable to shareholders*

During the three months ended September 30, 2019, the Corporation realized net income attributable to shareholders of \$11.0 million, compared to a net loss of \$1.0 million for the same period of 2018. Net income was primarily the result of the realized gain on derivative contacts of \$15.3 million and unrealized gain on derivative of \$17.6 million.

Net loss attributable to shareholders for the nine months ended September 30, 2019 was \$0.1 million compared to net income attributable to shareholders of \$7.0 million for the same period of 2018. The net loss was primarily the result of the increased depreciation expense of \$46.4 million, which was partially offset by realized gain derivative contacts of \$31.9 million.

Fair values of the Corporation's derivative contracts fluctuate depending on the underlying commodity prices and can impact net income substantially in the form of realized or unrealized gains and losses, often offset by physical inventories, that can change significantly between periods.

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

Net income per share attributable to shareholders was \$0.03 per share for the third quarter of 2019, compared to net loss per share attributable to shareholders of \$0.00 for the same period of 2018. Net loss per share attributable to shareholders for the nine months ended September 30, 2019 was \$0.00 per share compared to net income per share attributable to shareholders of \$0.02 for the same period of 2018. The increase in net income per share attributable to shareholders for the three-month period was primarily due to higher realized and unrealized gain on derivative as discussed above. The net loss per share attributable to shareholders for the nine-month period of 2019 was primarily due to increased depreciation expense as discussed above. Dividends declared per share were \$0.01 per share in the third quarter of 2019, consistent for each quarter to date of 2019 and 2018.

## **OUTLOOK AND CORPORATE UPDATE**

Tidewater has significantly transformed its business over the past 24 months with the successful sanctioning, completion and commissioning of the Pipestone Gas Plant, Pipestone Gas Storage Facility and Pioneer Pipeline, and the acquisition of the Prince George Refinery. Tidewater continues to build an integrated and connected midstream infrastructure network from the well head to the end consumer in order to increase value for its customers and itself. Over the past two years, Tidewater has added over ten new take-or-pay contracts ranging in term from five to fifteen years and including over five new investment-grade counterparties which now account for a significant portion of the Corporation's cash flows. Tidewater continues to work to offer premium service to its customers through multiple egress options at its facilities (including its Alliance, TC Energy and Storage connections at Pipestone, and its Pioneer, TC Energy and Storage connections at Brazeau) and exposure to premium markets through access to its rail infrastructure and refined product markets.

The completion of the Pipestone Gas Plant, Pipestone Gas Storage Facility, Pioneer Pipeline and the acquisition of the Prince George Refinery have further strengthened Tidewater's asset mix. With its diverse asset mix, Tidewater is able to generate cash flow in varying commodity price environments and provide its customers opportunities to capitalize on high and low commodity prices.

Over the next 12 to 24 months, Tidewater will be focused on deleveraging and utilizing its anticipated significant increase in cash flows to reduce the Corporation's leverage ratios back to historic levels with a target of 3.0x to 3.5x Net Debt to Adjusted EBITDA by the end of 2020.

### **Natural Gas Storage**

Tidewater operates three natural gas storage reservoirs at two different facilities; Dimsdale Paddy A (Pipestone Gas Storage Facility), Brazeau Nisku F, and Brazeau Nisku A (Brazeau River Gas Storage Facility).

The third quarter of 2019 saw heightened AECO natural gas price volatility which incited high injection volumes, coupled with withdrawal opportunities, to yield strong quarterly performance.

During the third quarter of 2019, Tidewater completed the facility expansion at the Pipestone Gas Storage Facility, which included the addition of compression and one new well. The Pipestone Gas Storage Facility saw its first injections from the Pipestone Gas Plant in the quarter, as well as its first flows to Chicago through the recently commissioned Saskatoon Mountain meter station via Alliance Pipeline.

The Pipestone Gas Storage Facility is fully contracted with take-or-pay contracts spanning as long as eight-years with multiple investment-grade counterparties. The facility is a significant step forward in Tidewater's fee-for-service gas storage business and offers producers at the Pipestone Gas Plant significant optionality where the plant has three egress solutions including connections to the TC Energy and Alliance systems, and gas storage.

At Brazeau, both Nisku A and Nisku F facilities have enjoyed connectivity to the newly in-service Pioneer Pipeline, allowing TransAlta to withdraw gas from storage during higher priced periods in October, and are scheduled to continue throughout the upcoming winter.

The Pipestone Gas Storage Facility continues to exceed expectations with all three storage facilities benefiting from volatility in AECO prices. Tidewater gas storage facilities are poised for an active withdrawal season into a recently strengthened winter AECO market.

## **Pipestone Gas Plant**

The Pipestone Gas Plant is designed to process approximately 100 MMcf/day of natural gas. The project includes an acid gas injection well, saltwater disposal well, and pipelines directly connected to the Pipestone Gas Storage Facility, as well as connections to both Alliance and TC Energy pipelines.

Tidewater began processing raw natural gas and natural gas liquids in mid-September 2019. All process units are online and continue to be optimized with reliability and uptime being the key deliverables through the fourth quarter of 2019. The Pipestone Gas Plant is currently processing over 60 MMcf/day of natural gas and throughput continues to increase. Full capacity has been impacted due to construction delays on downstream third-party infrastructure. In addition to the gas plant and gas gathering systems, both TC Energy and Alliance connections are commissioned and are accepting gas flows from both the Pipestone Gas Plant and the Pipestone Gas Storage Facility. Hydrocarbon liquid handling is currently being managed through trucking operations. Egress pipelines for both condensate and NGLs are expected to come online in January 2020, allowing the facility to increase raw volumes and optimize liquid recoveries.

## **Pioneer Pipeline**

The Pioneer Pipeline is a 120km natural gas pipeline connecting Tidewater's BRC to TransAlta's generating units at Keephills, and an 11km lateral connecting to Sundance. The Pioneer Pipeline has an initial capacity of 130 MMcf/day supported by a 15 year take-or-pay commitment from TransAlta, which may be expanded to approximately 440 MMcf/day. The pipeline has allowed TransAlta to increase the amount of natural gas it co-fires at its Sundance and Keephills coal-fired units, resulting in lower carbon emissions and costs. TransAlta is a 50% working interest owner in the pipeline.

The Pioneer Pipeline was fully commissioned in the second quarter of 2019 and had average throughput of approximately 40 MMcf/day of natural gas through the start-up phase in the third quarter of 2019. Throughput of approximately 130 MMcf/day of natural gas commenced flowing through the Pioneer Pipeline in the first week of November in conjunction with the 15 year take-or-pay agreement with TransAlta.

## **Brazeau River Complex and Fractionation Facility**

Throughput at the BRC was in-line with the second quarter of 2019 where Tidewater is working diligently with producers to improve netbacks by fully utilizing the BRC's facilities, including its two NGL pipeline connections, condensate pipeline connection, truck loading and offloading facilities, fractionation, natural gas storage facilities and two natural gas sales pipeline connections.

The Brazeau River Fractionation facility is fully contracted until March 2020, with two investment-grade customers and remained at maximum capacity through the third quarter of 2019.

The Brazeau River Complex remains a flagship asset for Tidewater, offering a full suite of services to producers, including C2, C3, C4 and C5 pipeline connections, NGL fractionation capacity, sweet and sour deep-cut gas processing capability, and two natural gas egress solutions given the BRC's connection to the NGTL system, and the Pioneer Pipeline.

## **Prince George Refinery**

On November 1, 2019, Tidewater closed the previously announced acquisition of the Prince George Refinery from Husky Energy Inc. ("Husky"), approximately one month ahead of schedule. The Prince

George Refinery is a 12.0 Mbbbl/day light oil refinery that predominantly produces low sulfur diesel and gasoline, in addition to other products, to supply the greater Prince George region. The Prince George Refinery has significant onsite storage capacity of greater than 1.0 MMbbbl and flexible logistics, with pipeline, rail and truck connectivity in place. The Prince George region is generally in short supply of refined products and the Prince George Refinery's location within the Prince George region makes it a critical piece of infrastructure with a significant logistical advantage to address the demand for these products.

Tidewater also entered into a 5-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 committed volumes that Husky has agreed to purchase, and contains pricing review mechanisms. The Prince George Refinery continues to demonstrate attractive operating economics.

## **CAPITAL PROGRAM**

Tidewater has substantially completed its 2019 capital program with the commissioning of three of the largest capital projects in the Corporation's history related to the Pioneer Pipeline, Pipestone Gas Plant and Pipestone Gas Storage Facility. The Pioneer Pipeline construction is complete and it is fully commissioned and delivering gas to TransAlta's generating units at Sundance and Keephills at contracted capacity rates. Tidewater's expansion of its Pipestone Gas Storage Facility is also operational with its 30-inch sales pipeline fully commissioned and sending gas to both Alliance and TC Energy. These three projects are a milestone in Tidewater's history and will contribute significantly to Tidewater's cash flow profile, as well as its customer and contract base.

Tidewater's focus over the next 6 to 12 months is to employ the related cashflow from our large capital projects and the Prince George Refinery acquisition towards deleveraging. Tidewater has decided to delay the expansion at Pipestone (Pipestone Plant 2) until further notice and plans to deploy limited growth capital in 2020 and focus on optimization and small capital projects with 2 to 3 year payouts. Tidewater is committed to reducing overall leverage through 2020 back to its historical levels with a target of 3.0x to 3.5x Net Debt to Adjusted EBITDA by the end of 2020.

### **Pipestone East Battery Acquisition and Construction**

During the quarter, Tidewater announced it had entered into an agreement with Pipestone Energy to acquire a 100% working interest in the Pipestone East Battery which will be located approximately 24 km east of the Pipestone Gas Plant. The total cash consideration payable under the agreement is up to \$30 million, which consisted of an initial cash payment of approximately \$14 million to purchase existing infrastructure and facility equipment, with a commitment to fund up to \$16 million to finalize the design, construction and commissioning of the Pipestone East Battery, which is expected to be completed over the next 12 to 18 months.

Concurrently with the Pipestone East Battery acquisition, Pipestone Energy entered into a 10-year take-or-pay agreement for compression, separation and liquids handling at the Pipestone East Battery and extended its existing 30 MMcf/day take-or-pay commitment at the Pipestone Gas Plant from a 5-year term to a 10-year term.

## SUMMARY OF QUARTERLY RESULTS

The following table presents a summary of Tidewater's quarterly results for the last eight quarters. The 2019 period results include the impacts from the adoption of new accounting standard "Leases" as discussed within "Changes in Accounting Policies". Comparative information has not been restated and, therefore, may not be comparable.

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

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Revenue	\$ 147,045	\$ 155,311	\$ 123,665	\$ 90,740
Net income (loss) attributable to shareholders	11,045	(4,086)	(7,135)	13,285
Net income (loss) per share attributable to shareholders – basic and diluted	0.03	(0.01)	(0.02)	0.04
Adjusted EBITDA <sup>(1)</sup>	\$ 25,496	\$ 21,786	\$ 22,404	\$ 20,924

(1) Refer to "Non-GAAP Measures"

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

	Q3 2018	Q2 2018	Q1 2018	Q4 2017
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	\$ 19,230	\$ 20,001	\$ 16,974

(1) Refer to "Non-GAAP Measures"

During the third quarter of 2019, the following trends caused the increases in net income (loss) attributable to shareholders and Adjusted EBITDA from the second quarter of 2019:

- higher realized gain on derivative due to lower oil commodity prices and settlement of crude oil hedges;
- income from equity investment compared to a loss in the second quarter of 2019; and
- unrealized gain on derivative contracts compared to an unrealized loss in the second quarter of 2019, impacting net income (loss) attributable to shareholders.

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

- increased fee-for-service revenues at Tidewater's Ram River Gas Plant, BRC and Pipestone Gas Storage Facility;
- 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 during the third quarter;
- increased unrealized losses on hedges as propane and condensate prices increased; and
- higher depreciation as a result of higher asset value.

## 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 had the following contractual obligations as at September 30, 2019 and December 31, 2018:

<i>(in thousands of Canadian dollars)</i>	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

The Corporation had a working capital deficit (defined as current assets less current liabilities, excluding contribution liability and current portion of lease liabilities) of approximately \$29.1 million at September 30, 2019, compared to a deficit of approximately \$45.5 million at December 31, 2018. The decrease in working capital deficit is a result of the completion of Corporation's major construction projects in the second and third quarters of 2019 and a corresponding reduction in accounts payable and accrued liabilities as compared to the second quarter of 2019. The Corporation plans to satisfy obligations as they become due through net cash provided by operating activities and its credit facility. The Corporation does not foresee any difficulties in meeting future obligations as they become due.

The Corporation's Senior Credit Facility is used to provide financing for working capital, fund capital expenditures and for other general corporate purposes. As at September 30, 2019, total availability under the Corporation's Senior Credit Facility was \$350 million. As of the date of this MD&A, availability under the Corporation's Senior Credit Facility was \$600 million. The 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.

The Corporation is required to meet certain financial covenants under its Senior 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 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 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. 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. 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.

At September 30, 2019, the Corporation was in compliance with its financial covenants.

Subsequent to September 30, 2019, and in conjunction with the acquisition of the Prince George Refinery, Tidewater entered into a credit agreement that established a \$100 million second lien term loan, 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. The interest rate will increase at a rate of 50 bps per quarter to a maximum of the bankers' acceptance rate + 750 bps stamping fee. The second lien term loan is subject to the same financial covenants as the Senior Credit Facility.

Tidewater anticipates that net cash provided by operating activities, cash flow generated from growth projects, and cash available from Tidewater's Senior 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, high barriers to entry of new participants, and current and future take-or-pay contracts and gas storage facilities, net cash provided by operating activities is anticipated to remain stable and be sufficient to support operations, fund sustaining capital expenditures and generate distributable cash flow.

## Cash Flow Summary

The following table summarizes the Corporation's sources and uses of funds for the three and nine months ended September 30, 2019 and 2018 from continuing operations:

Cash flows provided by (used in) <i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Operating activities	\$ (2,404)	\$ 7,251	\$ 23,301	\$ (1,017)
Financing activities	\$ 72,156	\$ 47,511	\$ 343,010	\$ 110,677
Investing activities	\$ (69,979)	\$ (62,964)	\$ (367,364)	\$ (147,491)

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

Net cash used in operating activities was \$2.4 million for the three months ended September 30, 2019, compared to net cash provided by operating activities of \$7.3 million for the three months ended September 30, 2018. For the nine months ended September 30, 2019, net cash provided by operating activities was \$23.3 million compared to a net cash use of \$1.0 million for the same period in 2018. The changes in net cash provided by operating activities between the three and nine-month periods were due to changes in non-cash working capital resulting from differences in the timing of payments, equalization adjustments and flow-through operating fee charges.

### Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$72.2 million for the three months ended September 30, 2019, compared to \$47.5 million for the three months ended September 30, 2018. The increase in net cash provided by financing activities was primarily related to the proceeds received from the convertible debenture offering. Net cash provided by financing activities was \$343.0 million for the nine months ended September 30, 2019, compared to \$110.7 million for the nine months ended September 30, 2018. The increase in net cash provided by financing activities between the nine-month periods was mainly related to increased draws on the Corporation's credit facilities to fund its organic growth projects, the issuance of convertible debentures, and contributions from partners.

The Corporation continues to draw on its credit facility, offset by interest payments, to fund its capital projects. Additionally, the Corporation continues to pay dividends on a quarterly basis at \$0.01 per share.

### Net Cash Used in Investing Activities

Net cash used in investing activities was \$70.0 million and \$367.4 million for the three and nine months ended September 30, 2019, respectively, compared to \$63.0 million and \$147.5 million for the three and nine months ended September 30, 2018, respectively. The increases in net cash used in investing activities were primarily related to the major growth projects, as described throughout this MD&A.

## Capital Expenditures

The following table summarizes growth and maintenance capital expenditures for the three and nine months ended September 30, 2019 and 2018:

<i>(in thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Growth capital	\$ 47,325	74,328	\$ 388,518	185,974
Maintenance capital	3,131	1,018	5,225	8,593
Total additions to property, plant and equipment, net of proceeds received on contribution of assets, as per statement of cash flows	\$ 50,456	75,346	\$ 393,743	194,567

### *Growth Capital*

Growth capital expenditures for the third quarter of 2019 were \$47.3 million, compared to \$74.3 million for the third quarter of 2018. The growth capital includes \$30.0 million of proceeds received in return for asset contributions to the Pipestone Gas Storage joint venture.

During the nine months ended September 30, 2019, growth capital was \$388.5 million compared to \$186.0 million for the nine months ended September 30, 2018. The growth capital includes \$97.5 million of cumulative capital contributions paid by TransAlta in relation to the Pioneer Pipeline, \$25.0 million of capital contributions paid by the Pipestone Gas Storage joint venture partner, and \$30.0 million of proceeds received in return for asset contributions to the Pipestone Gas Storage joint venture. The increase period over period was due to continued construction on the Pipestone Gas Plant, Pioneer Pipeline and Pipestone Gas Storage Facility projects. In addition to these projects, Tidewater continues to move forward on multiple other small-scale optimization and growth capital projects. Total costs incurred to May 17, 2019 of approximately \$195.0 million were transferred to Tidewater's joint operation, Pioneer Pipeline LP, of which Tidewater owns 50%. During the third quarter of 2019, total costs incurred, net of decommissioning liabilities, of \$105.1 million were transferred to the Pipestone Gas Storage joint venture.

### *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 months ended September 30, 2019 were \$3.1 million, compared to \$1.0 million for the same period of 2018. The increase in expenditures for the three months ended September 30, 2019 as compared to 2018 was primarily the result of planned maintenance and turnaround operations at certain midstream facilities. Capital maintenance expenditures for the nine months ended September 30, 2019 and 2018 were \$5.2 million and \$8.6 million respectively. The decrease in expenditures for the nine months ended September 30, 2019 as compared to 2018, was largely related to the planned maintenance and turnaround operations at the BRC during 2018. This maintenance and turnaround is scheduled to occur every four years.

## CONTRACTUAL LIABILITIES AND COMMITMENTS

At September 30, 2019, the Corporation had commitments related to leased (right-of-use) assets, energy service fees, firm transportation contracts and long-term debt. Lease liabilities relate to office leases for the Corporation's office space, rail tank cars, vehicles, field buildings, various equipment leases and energy service arrangements. The firm transportation contracts relate to firm service contracts with TC Energy, Alliance, Nova Pipelines and Capline Pipeline Company ranging from one to ten years.

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

<sup>(1)</sup> Fixed interest payments on notes payable

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

<sup>(3)</sup> Convertible debentures mature on September 30, 2024.

On occasion, the Corporation issues letters of credit in connection with transactions in which the counterparty requires such security.

## OUTSTANDING EQUITY

At November 12, 2019, Tidewater had the following outstanding common shares, RSUs, DSUs and options:

<i>(In thousands)</i>	
Common shares	336,778
RSUs	10,184
DSUs	212
Options	15,905

## 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, 2019 are summarized in the following table:

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Revenue	Operating expenses	Revenue	Operating expenses
<b>Related Party</b>				
Highwood Oil Company Ltd (formerly Predator Oil Ltd.) <sup>(1)</sup>	\$ 475	\$ 425	\$ 1,571	\$ 503
Cedar Creek Energy Ltd <sup>(2)</sup>	-	-	3,574	5,630
Tidewater Brazeau Gas Storage LP <sup>(4)</sup>	351	753	2,791	1,974
Pioneer Pipeline LP <sup>(5)</sup>	-	314	-	400
Tidewater Pipestone Infrastructure LP <sup>(6)</sup>	-	-	-	-
<b>Total</b>	<b>\$ 826</b>	<b>\$ 1,492</b>	<b>\$ 7,936</b>	<b>\$ 8,507</b>

The related party balances included in the consolidated statement of financial position as at September 30, 2019 are summarized in the following table:

*(in thousands of Canadian dollars)*

Related Party	As at September 30, 2019	
	Accounts receivable	Accounts payable
Highwood Oil Company Ltd (formerly Predator Oil Ltd.) <sup>(1)</sup>	\$ 516	\$ -
Cedar Creek Energy Ltd <sup>(2)</sup>	-	-
Fireweed Energy Ltd. <sup>(3)</sup>	47	-
Tidewater Brazeau Gas Storage LP <sup>(4)</sup>	1,146	-
Pioneer Pipeline LP <sup>(5)</sup>	-	(107)
Tidewater Pipestone Infrastructure LP <sup>(6)</sup>	1,492	-
<b>Total</b>	<b>\$ 3,201</b>	<b>\$ (107)</b>

- (1) Highwood Oil Company Ltd. (formerly Predator Oil Ltd.) is a public company, of which Tidewater's Chief Executive Officer, Joel Macleod, is a controlling shareholder. The related party transactions with Highwood Oil Company Ltd. consist of gas processing fee revenue, retail propane sales, trucking revenue and commodity purchases.
- (2) Cedar Creek Energy Ltd. is a private company whose shares were 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 commodity purchases. Cedar Creek Energy Ltd. ceased to be a related party during the third quarter of 2019.
- (3) 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.
- (4) 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.
- (5) Pioneer Pipeline LP is a joint arrangement partnership. The transactions involving Pioneer Pipeline LP consist of pipeline transportation fees.
- (6) Tidewater Pipestone Infrastructure LP is a joint arrangement partnership. The transactions involving Tidewater Pipestone Infrastructure LP consist of gas storage fees and revenue.

For the three and nine months ended September 30, 2019, 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.

## FINANCIAL INSTRUMENTS

Tidewater's financial instruments consist of cash, accounts receivable, finance lease receivable, derivative contracts, investments, accounts payable and accrued liabilities, contribution liability, lease liabilities, dividends payable, interest payable, bank debt, notes payable and convertible debenture liability. 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.

On October 2, 2019, Bellatrix Exploration Ltd. announced its commencement of proceedings under the Companies' Creditors Arrangement Act ("CCAA"). At September 30, 2019, Tidewater's trade receivables from Bellatrix were less than \$100,000.

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 (loss) and comprehensive income (loss).

## **RISK MANAGEMENT**

The Corporation continually works to mitigate the impact of risks to its business by identifying all significant risks so that they can be appropriately managed. The risks that may affect the business and operation of Tidewater are described within the Corporation's Annual Information Form ("AIF"), an electronic copy of which is available on Tidewater's SEDAR profile at [www.sedar.com](http://www.sedar.com). The Corporation's financial risks are discussed in note 17 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. The Corporation 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.

For a detailed discussion of environmental regulations that affect Tidewater, political and legislative development as they relate to climate change and the risks associated therewith, see the Corporation's AIF and Management Discussion and Analysis for the year ended December 31, 2018, both available at [www.sedar.com](http://www.sedar.com).

## **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.

IFRS 16, "Leases" was adopted during the nine months ended September 30, 2019:

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 increases 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 asset and a corresponding lease liability representing its obligation to make payments to use the asset.

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 asset 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 asset (included in 'depreciation') and interest expense related to the lease liability (included in 'finance costs and other'). 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 percent. The adoption of IFRS 16 resulted in the following adjustments on its statement of financial position recognized at January 1, 2019:

<i>(in thousands of Canadian dollars)</i>	<b>January 1, 2019</b>	
Finance lease receivable	\$	630
Right-of-use asset	\$	17,376
Lease liability (current and non-current)	\$	(18,006)

Refer to notes 2, 3 and 9 of the Financial Statements for more information including additional disclosure as required under IFRS 16.

For the three and nine months ended September 30, 2019 the adoption of IFRS 16 had the following impact:

- decreased operating and general and administrative expenses by approximately \$6.0 million and \$12.1 million respectively; and
- increased depreciation expense by \$4.8 million and \$10.1 million respectively; and
- increased financing expense by \$2.2 million and \$3.3 million respectively

## **CRITICAL ACCOUNTING JUDGMENTS AND 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, 2018.

Other than accounting estimates and judgments made in connection with the adoption of IFRS 16, and accounting for the Pioneer Pipeline LP as a joint operation, there have been no material changes to the Corporation's critical accounting estimates and judgments during the three and nine months ended September 30, 2019.

## **CONTROL ENVIRONMENT**

### *Disclosure Controls and Procedures ("DC&P")*

The Corporation's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), to provide reasonable assurance that material information relating to the Corporation is made known to them by others, particularly during the period in which the annual filings are being prepared, and information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Corporation's management, including the Chief Executive Officer and Chief Financial Officer, evaluate the effectiveness of the Corporation's DC&P annually.

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

Tidewater's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR"). They have as at the period ended September 30, 2019, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework used by the officers to design the Corporation's ICFR is the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations.

The Corporation's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. No material changes in the ICFR were identified during the interim period ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

## **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 and 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 months ended September 30, 2019.

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:

<i>(in thousands of Canadian dollars except per share information)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 10,677	\$ (1,453)	\$ (1,195)	\$ 6,176
Deferred income tax expense (recovery)	5,465	158	(4,016)	3,299
Depreciation	17,552	10,697	46,380	31,874
Finance costs	8,737	3,774	16,139	8,880
Share-based compensation	1,656	2,981	7,361	5,160
Loss (gain) on sale of assets	(2,069)	(102)	(3,353)	72
Unrealized loss (gain) on derivative contract	(17,647)	852	5,647	(1,299)
Transaction costs	893	-	1,967	1,653
Non-recurring transactions	232	376	756	684
<b>Adjusted EBITDA</b>	<b>\$ 25,496</b>	<b>\$ 17,283</b>	<b>\$ 69,686</b>	<b>\$ 56,499</b>
Adjusted EBITDA per common share – basic	\$ 0.08	\$ 0.05	\$ 0.21	\$ 0.17
Adjusted EBITDA per common share – diluted	\$ 0.06	\$ 0.05	\$ 0.20	\$ 0.17

The 2019 Adjusted EBITDA includes the impacts from the adoption of new accounting standard "Leases" as discussed in *Changes in Accounting Policies*. Comparative information has not been restated and, therefore, may not be comparable.

## 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 provided by operating activities before changes in non-cash working capital plus transaction costs, non-recurring expenses, income (loss) from equity investment 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 also excludes cash outflows related to the purchase of linefill on pipelines and tank bottoms for storage tanks, whereby Tidewater transports oil on third-party pipelines for which it is required to supply linefill or tank bottoms for storage. As these pipelines/storage tanks are owned by third parties, the linefill is not considered to be a component of the Corporation's property and equipment. The linefill is classified as a non-current inventory asset and an operating cash outflow, however linefill is not a principal revenue-producing activity and therefore is considered an investment to gain access as a shipper on the pipeline.

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 months ended September 30, 2019. Investors should be cautioned that distributable cash flow and distributable cash flow per common 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 operating activities, the nearest GAAP measure, to distributable cash flow:

<i>(in thousands of Canadian dollars except per share information)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net cash provided by (used in) operating activities	\$ (2,404)	\$ 7,251	\$ 23,301	\$ (1,017)
Add (deduct):				
Changes in non-cash working capital	24,279	8,700	30,226	52,842
Transaction costs	893	-	1,967	1,653
Purchase of linefill	-	-	6,572	-
Income (loss) from equity investment	1,848	(196)	1,431	(78)
Non-recurring transactions	232	376	756	684
Interest and financing charges paid	(3,554)	(2,398)	(7,587)	(5,604)
Payment of lease liabilities	(6,318)	-	(12,580)	-
Sublease payments received	296	-	468	-
Maintenance capital	(3,131)	(1,018)	(5,225)	(8,593)
<b>Distributable cash flow</b>	<b>\$ 12,141</b>	<b>\$ 12,715</b>	<b>\$ 39,329</b>	<b>\$ 39,887</b>
Distributable cash flow per common share – basic	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12
Distributable cash flow per common share – diluted	\$ 0.03	\$ 0.04	\$ 0.11	\$ 0.12

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 months ended September 30, 2019 were \$3.3 million or approximately 28% of distributable cash flow. Dividends declared for the nine months ended September 30, 2019 were \$10.0 million or approximately 25% of distributable cash flow. Growth capital expenditures will be funded from operating cash flow, along with proceeds from additional debt or equity, as required. The decrease in distributable cash flow between the 2018 and 2019 periods was mainly related to increased financing costs from increased draws on the Corporation's credit facility in connection with substantial completion of the 2019 capital program as well as a foreign exchange loss related to the Corporation's US denominated sales.

Distributable cash flow was not affected by the adoption of *IFRS 16, Leases* as lease payments continue to be deducted from this non-GAAP measure.

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

<i>(in thousands of Canadian dollars except percentage information)</i>	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Dividends declared	\$ 3,349	\$ 3,293	\$ 9,969	\$ 9,876
Distributable cash flow	\$ 12,141	\$ 12,715	\$ 39,329	\$ 39,887
<b>Payout ratio</b>	<b>28%</b>	<b>26%</b>	<b>25%</b>	<b>25%</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

<i>(in thousands of Canadian dollars)</i>	September 30, 2019		September 30, 2018
Bank debt	\$	333,400	\$ 181,050
Notes payable		122,688	122,077
Convertible debentures – principal		75,000	-
Cash		(4,914)	(14,663)
<b>Net debt</b>	<b>\$</b>	<b>526,174</b>	<b>\$ 288,464</b>

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 bank debt, notes payable and convertible debentures, less cash. The Corporation's net debt has increased as at September 30, 2019 compared to September 30, 2018 as a result of increased bank debt due to the overall growth and capital projects of the Corporation and the issuance of convertible debentures. The Corporation has

modified its definition of net debt to exclude working capital as the Corporation monitors its capital structure based on consolidated net debt to Adjusted EBITDA, consistent with its credit facility covenants as described in Liquidity and Capital Resources.

### **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. These expenditures include 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.

## **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:

- projections regarding attainment of full capacity at Tidewater’s Pipestone Gas Plant;
- anticipated increase to cash flows in a variety of commodity price environments and projected use of such cash flow to reduce the Corporation’s leverage ratios;
- anticipated continued withdrawals from the Nisku A and Nisku F storage facilities throughout the upcoming winter;
- reliability and uptime deliverables from the Pipestone Gas Plant;
- 
- projections regarding growth capital to be deployed by the Corporation in 2020;
- estimated timeline to finalize the design, construction and commissioning of the Pipestone East Battery;
- the Corporation’s plans to satisfy debt obligations through net cash provided by operating activities and its credit facility; and

- future optionality, egress and contracting capacity at the Pipestone Gas Storage Facility and projected capital costs of such project.

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;
- anticipated timelines and budgets being met in respect of the Corporation's projects and 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;
- assumptions regarding amount of operating costs to be incurred;
- that proposed transactions will close as expected;
- 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;
- distributable cash flow and net cash provided by operating activities 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;
- 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 for capital projects 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;
- that receipt of third party, regulatory, environmental and governmental approvals and consents relating to the PGR acquisition and Tidewater's other capital projects can be obtained on the necessary terms and in a timely manner;
- the ability to secure land and water, including obtaining and maintaining land access rights;

- 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;
- the possibility that the Corporation fails to formalize agreements with counterparties;
- 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, including cybersecurity;
- 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 AIF 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 May 13, 2019. A 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.