TIDEWATER

Renewables Ltd.

Consolidated Financial Statements

For the year ended December 31, 2022 and for the period from date of incorporation, May 11, 2021 to December 31, 2021

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Tidewater Renewables Ltd. (“Tidewater Renewables”) is responsible for the preparation of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include certain estimates that reflect management’s best estimates and judgements. Management has determined such estimates on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Management has developed and maintains an extensive system of internal accounting controls that provide reasonable assurance that all transactions are accurately recorded, that the consolidated financial statements present fairly Tidewater Renewables’ financial results, and that Tidewater Renewables’ assets are safeguarded. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2022. Tidewater Renewables has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to Tidewater Renewables which complies with the requirements of Canadian securities legislation.

Deloitte LLP was appointed by a resolution of the Board of Directors to audit the consolidated financial statements of Tidewater Renewables and to provide an independent professional opinion. Deloitte LLP was appointed to hold such office until the next annual meeting of the shareholders of Tidewater Renewables.

The Board of Directors, through its Audit Committee, has reviewed the consolidated financial statements including notes thereto with management and Deloitte LLP. The members of the Audit Committee are independent directors who are not employees of Tidewater Renewables. The Board of Directors have approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

“Rob Colcleugh”	“Ray Kwan”
Interim Chief Executive Officer	Chief Financial Officer

March 8, 2023
Calgary, Alberta

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Independent Auditor's Report

To the Shareholders of Tidewater Renewables Ltd.

Opinion

We have audited the consolidated financial statements of Tidewater Renewables Ltd (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the year ended December 31, 2022 and the period from date of incorporation, May 11, 2021 to December 31, 2021 and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the year ended December 31, 2022 and the period from the date of incorporation, May 11, 2021 to December 31, 2021 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting Matters - Refer to Note 3, 6, and 10 of the financial statements

Key Audit Matter Description

The Corporation was incorporated on May 11, 2021, and on August 18, 2021 acquired renewable assets from Tidewater Midstream and Infrastructure Ltd. The current year is the Corporation first full year of operations. The Corporation is focused on the production of low carbon fuels, including renewable diesel, renewable hydrogen and renewable natural gas.

A key audit matter has been identified with regards to the certain accounting matters, specifically relating to 1) the control assessment of newly formed entities; 2) the accounting assessment relating to emissions credits; and 3) the accounting assessment relating to the term debt, and the valuation methodology of the related warrants issued and key assumptions, specifically the implied volatility.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to these accounting matters included the following, among others:

- With the assistance of accounting specialists, evaluated management's accounting assessments by:
  - Reviewing the executed contracts to determine whether all key facts and circumstances were incorporated into management's assessment;
  - Analyzing relevant accounting standards, including various aspects of IFRS, conceptual framework and guidance;
- With the assistance of fair value specialists, evaluated the reasonableness of management methodology and key assumptions, specifically implied volatility in determining the value of the warrant liability.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Mandeep Singh.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 8, 2023

Tidewater Renewables Ltd.
Consolidated Statement of Financial Position
(all tabular amounts expressed in thousands of Canadian dollars)

As at	Notes		**December 31, 2022**		December 31, 2021
Assets					
Current					
Cash and cash equivalents		**$**	**11,379**	$	1,022
Accounts receivable			**3,905**		7,023
Derivative contracts			**14,062**		543
Inventory and emission credits	5		**24,579**		-
Prepaid expenses and other			**403**		474
			54,328		9,062
Derivative contracts			**9,929**		-
Investments	6		**30,321**		-
Right-of-use assets	7		**19,066**		22,659
Property, plant and equipment	8		**879,677**		699,271
Total assets		**$**	**993,321**	$	730,992
Liabilities					
Current					
Trade payables and accrued liabilities		**$**	**55,299**	$	1,780
Derivative contracts			**7,739**		-
Lease liabilities	12		**6,128**		5,535
Warrant liability	10		**12,445**		-
			81,611		7,315
Bank debt	9		**70,482**		58,952
Term debt	10		**127,882**		-
Derivative contracts			**8,733**		2,095
Lease liabilities	12		**14,873**		17,377
Decommissioning obligations	11		**1,163**		1,171
Deferred tax liabilities	13		**138,452**		128,486
Total liabilities			**443,196**		215,396
Equity					
Non-controlling interest	15		**6,500**		-
Shareholders' equity					
Share capital	14		**512,574**		512,483
Employee share reserve			**2,346**		350
Retained earnings			**28,705**		2,763
Total shareholders' equity			**543,625**		515,596
Total shareholders' equity and non-controlling interest			**550,125**		515,596
Total liabilities and equity		**$**	**993,321**	$	730,992

Economic dependence (note 1)

See the accompanying notes to the audited consolidated financial statements

Approved by the Board:

(signed) "Rob Colcleugh", Director

(signed) "Brett Gellner", Director

Tidewater Renewables Ltd.

Consolidated Statements of Net Income and Comprehensive Income

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

	Notes		Year ended December 31, 2022		For the period from date of incorporation, May 11, 2021, to December 31, 2021
Revenue	16	**$**	**76,099**	$	23,055
Operating expenses	16		**29,971**		7,374
Gross margin			**46,128**		15,681
General and administrative			**5,834**		853
Share-based compensation	18		**3,217**		680
Depreciation	7,8		**19,443**		6,707
Operating income			**17,634**		7,441
Finance costs and other	17		**7,547**		1,476
Realized gain on derivative contracts			**(19,488)**		(1,137)
Unrealized loss (gain) on derivative contracts			**(9,071)**		1,552
Loss on warrant liability revaluation	10		**1,995**		-
Income from equity investment	6		**(221)**		-
Transaction costs			**964**		1,553
Income before tax			**35,908**		3,997
Deferred income tax expense	13		**9,966**		1,234
Net income and comprehensive income		**$**	**25,942**	$	2,763
Net income and comprehensive income attributable to:					
Shareholders of the corporation			**25,942**		2,763
Non-controlling interest			**-**		-
Net income and comprehensive income		**$**	**25,942**	$	2,763
Net income per share attributable to common shareholders – basic	19	**$**	**0.75**	$	0.14
Net income per share attributable to common shareholders – diluted	19	**$**	**0.74**	$	0.14

See the accompanying notes to the audited consolidated financial statements

Tidewater Renewables Ltd.

Consolidated Statement of Changes in Shareholders' Equity

(all tabular amounts expressed in thousands of Canadian dollars)

	Notes	Attributable to Shareholders of the Corporation				
		Share capital	Employee share reserve	Retained earnings	Non-controlling interest	Total Equity
Balance, January 1, 2022		$ 512,483	$ 350	$ 2,763	$ -	$ 515,596
Net income		-	-	25,942	-	25,942
Issuance of common shares	14	99	(99)	-	-	-
Share issue costs (net of tax)	14	(8)	-	-	-	(8)
Share-based compensation		-	2,095	-	-	2,095
Contributions from non - controlling interest	8,15	-	-	-	6,500	6,500
Balance at December 31, 2022		**$ 512,574**	**$ 2,346**	**$ 28,705**	**$ 6,500**	**$ 550,125**
Balance, May 11, 2021		**$** -	**$** -	**$** -	**$** -	**$** -
Net income		-	-	2,763	-	2,763
Issuance of common shares	14	520,621	-	-	-	520,621
Share issue costs (net of tax)	14	(8,138)	-	-	-	(8,138)
Share-based compensation		-	350	-	-	350
Balance at December 31, 2021		$ 512,483	$ 350	$ 2,763	$ -	$ 515,596

See the accompanying notes to the audited consolidated financial statements

Tidewater Renewables Ltd.
Consolidated Statement of Cash Flows
(all tabular amounts expressed in thousands of Canadian dollars)

	Notes	Year ended December 31, 2022	For the period from date of incorporation, May 11, 2021, to December 31, 2021
Cash provided by (used in):			
Operating activities			
Net income for the period		**$ 25,942**	$ 2,763
Adjustments:			
Non-cash share-based compensation		**2,095**	350
Depreciation	7,8	**19,443**	6,707
Interest and financing charges	17	**3,650**	635
Accretion	17	**3,520**	766
Unrealized loss on foreign exchange	17	**1,412**	75
Unrealized loss (gain) on derivative contracts		**(9,071)**	1,552
Loss on warrant liability revaluation	10	**1,995**	-
Income from equity investment	6	**(221)**	-
Deferred income tax expense	13	**9,966**	1,234
Changes in non-cash working capital	20(a)	**8,713**	(5,895)
Net cash provided by operating activities		**67,444**	8,187
Financing activities			
Advances of bank debt	9	**12,611**	60,000
Advances of term debt	10	**142,500**	-
Payment of lease liabilities	12	**(5,982)**	(2,147)
Interest and financing charges paid		**(11,713)**	(1,832)
Proceeds from issuance of common shares	14	**-**	161,025
Share issuance costs	14	**(8)**	(11,065)
Net cash provided by financing activities		**137,408**	205,981
Investing activities			
Additions to property, plant and equipment	8	**(244,576)**	(30,974)
Cash paid on acquisitions	4	**-**	(182,172)
Proceeds from capital emission credit sales	5	**33,280**	-
Contributions to investments	6	**(30,100)**	-
Changes in non-cash working capital	20(b)	**46,901**	-
Net cash used in investing activities		**(194,495)**	(213,146)
Increase in cash and cash equivalents		**10,357**	1,022
Cash and cash equivalents at beginning of year		**1,022**	-
Cash and cash equivalents at end of year		**$ 11,379**	$ 1,022

See the accompanying notes to the audited consolidated financial statements

1. REPORTING ENTITY AND ECONOMIC DEPENDENCE

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

On August 18, 2021, the Corporation acquired certain assets from and entered into various take-or-pay agreements with Tidewater Midstream. The take-or-pay agreements provide processing capacity, services, and renewable products to Tidewater Midstream. Substantially all of Tidewater Renewables' processing, services, and renewable products revenue, as described in these consolidated financial statements, are derived from such agreements. Since the Corporation derives a majority of its revenues from Tidewater Midstream, it is economically dependent on Tidewater Midstream. Through these agreements, the Corporation provides a significant amount of throughput capacity to Tidewater Midstream.

The Corporation operates its business through a number of subsidiaries including a wholly owned feedstock supplier and the Rimrock Renewables Limited Partnership ("RNG LP"), which it controls. The Corporation also has a joint venture investment in Rimrock Cattle Company Ltd. ("RCC").

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

2. BASIS OF PRESENTATION

a) Statement of Compliance

The Corporation prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 8, 2023.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except as otherwise allowed for in accordance with IFRS.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is also the Corporation's functional currency.

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Revenue and expenses are translated using the average exchange rates for the period. Foreign currency differences arising on translation or from the settlement of foreign currency transactions are recognized in profit or loss.

d) Use of estimates and judgements

The timely preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions based on currently available information that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period.

Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates, judgments, and assumptions made by management in the preparation of these consolidated financial statements are outlined below.

Key sources of judgement and estimation uncertainty:

The following are the key judgement and estimation uncertainties that management believes have a significant risk of causing adjustments to the carrying amounts of assets and liabilities:

Judgements

i) Acquisitions

The determination of the fair value of the identifiable assets and liabilities acquired often requires management to make judgements about future possible events. The assumptions used in determining the fair value of property, plant and equipment, liabilities and deferred taxes often require the most judgement.

ii) Depreciation

Depreciation of an asset often requires management to make judgements regarding the determination of an asset’s future economic benefit and useful life. Among other factors, these judgements are based on industry standards and historical experience.

iii) Impairment

The determination of an asset, cash generating unit (“CGU”) or group of CGUs’ impairment is based on management’s judgements in regard to the existence of internal or external indicators of impairment. The determination of a CGU is also based on management’s judgement in regard to determining the smallest group of assets that generate cash inflows independently of other assets. The asset composition of a CGU can directly impact the recoverability of the related assets. The allocation of assets into a CGU requires judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures and the way in which management monitors the operations. In assessing recoverability, each CGU’s carrying value is compared against the recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use.

iv) Revenue recognition

To determine the timing and amount of revenue recognition, management utilizes judgment which includes the nature and type of performance obligations under contract, the timing of when such performance obligations have been satisfied, and the likelihood that customers will have the ability to exercise any make-up rights that have accumulated before they expire.

v) Deferred income tax

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse.

vi) Leases

The determination of whether a contract is, or contains, a lease from both a lessee and lessor perspective requires management to assess whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Key judgments include whether a contract identifies an asset (or portion of an asset), whether the lessee obtains substantially all the economic benefits of the asset over the contract term and whether the lessee has the right to direct the asset’s use. Judgment is also applied in determining the rate used to discount the lease payments.

Estimates

i) Depreciation

Processing facilities and related equipment are depreciated, net of estimated residual values, on a straight-line basis over their estimated useful lives. Where facilities and equipment, including major components, are significant in relation to the total cost of the assets and have differing useful lives, they are depreciated separately. Depreciation methods, useful lives, and residual values are reviewed on an annual basis and, if necessary, any changes are accounted for prospectively.

ii) Decommissioning obligations

The carrying amount of decommissioning obligations depends on estimates of current pre-tax credit-adjusted risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures. The estimated costs for decommissioning obligations include activities such as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the sites.

iii) Share-based compensation

The Corporation uses the fair value method of accounting for its long-term incentive plans, which includes the Incentive Stock Option Plan, Restricted Share Units (“RSUs”), Performance Share Units (“PSUs”) Plan, Deferred Share Units (“DSU”) Plan and the Employee Share Purchase Plan (“ESPP”). Estimates and assumptions are used in the appropriate valuation models to determine fair value.

For stock options, the Corporation uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option and forfeiture rate.

iv) Warrant liability

To estimate the fair value of its warrant liability, the Corporation uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the exercise price of the warrant, the anticipated volatility of the share price over the life of the warrant and the risk-free interest rate for the life of the warrant.

v) Acquisitions

Management estimates the fair value of the acquired identifiable net assets and any contingent consideration at the date of acquisition. The fair values assigned through the allocation of the purchase price to net assets are based on numerous estimates that affect the valuation of certain assets and liabilities acquired including discount rates, future cash flows, fair value of any contingent consideration, replacement cost, depreciation, and other factors.

vi) Impairment of property, plant and equipment

In determining the recoverable amount of assets in the absence of quoted market prices, estimates are made regarding the present value of future cash flows. Future cash flow estimates are based on future production profiles and reserves for surrounding wells, commodity prices, demand for renewable product and costs. Estimates are also made in determining the discount rate used to calculate the present value of cash flows.

vii) Impairment of financial assets

The measurement of financial assets carried at amortized cost includes management’s estimates regarding the expected credit losses that will be realized on these financial assets.

viii) Derivative financial instruments

Fair values of derivative contracts fluctuate depending on the underlying estimates of future commodity prices and foreign currency exchange rates. The estimated fair value of all derivative financial instruments are based on observable market data, including commodity price curves, foreign currency curves and credit spread.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to the periods presented in these consolidated financial statements.

a) Basis of consolidation

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

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

b) Financial instruments

Financial assets or liabilities measured at amortized cost

A financial asset is classified in this category if the asset is held within a business entity whose objective is to collect contractual cash flows on specified dates that are solely payments of principal and interest. At initial recognition, financial assets at amortized cost are recognized at fair value plus transaction costs. Subsequent to initial recognition, these financial assets are recorded at amortized cost using the effective interest method less any impairment losses. At each statement of financial position date an assessment is made whether there is objective evidence that a financial asset is impaired based on expected credit loss information. For the Corporation’s financial assets measured at amortized cost, loss allowances are determined based on the expected credit loss over the asset’s lifetime. Expected credit losses are a probability-weighted estimate of credit losses, considering possible default events over the expected life of a financial asset.

If a financial liability is not measured at fair value through profit or loss, it is measured at amortized cost. For interest bearing debt, this is the fair value of the proceeds received net of transaction costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Derivative contracts

Derivative contracts executed by the Corporation to manage market risk are classified as fair value through profit or loss. The estimated fair value is determined by reference to observable market data including commodity price curves, foreign currency curves and credit spreads. Transaction costs are charged to the statements of income and comprehensive income as incurred. Realized gains and losses on these contracts are recorded as gains and losses on derivative contracts in the statement of net income and comprehensive income in the period they occur. Changes in fair value of the derivative contracts are recorded as unrealized gains and losses on derivative contracts in the statement of net income and comprehensive income. Derivatives may include those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. For embedded derivatives within the financial asset host contract, the embedded derivative is not separated from the host contract and instead, the whole contract is accounted for as a single instrument. For embedded derivatives within the financial liability host contract, the embedded derivative is separated from the host contract and accounted for as a derivative instrument.

Derecognition

The Corporation derecognizes financial assets when the contractual rights to the cash flow expire or when the rights to receive the cash flow are transferred in a transaction in which either: substantially all of the risks and rewards of ownership of the financial asset are transferred; or the Corporation neither transfers nor retains substantially all of the risks and rewards of ownership; and it does not retain control of the financial asset. In transactions where the Corporation retains either all or substantially all of the risks and rewards of the transferred assets they are not derecognized.

The table below lists the Corporation’s classification of financial instruments:

Financial Instrument	Measurement Category
Cash and cash equivalents	Fair value through profit or loss
Accounts receivable	Amortized cost
Derivative contracts	Fair value through profit or loss
Trade payables and accrued liabilities	Amortized cost
Warrant liability	Fair value through profit or loss
Bank debt	Amortized cost
Term debt	Amortized cost

c) Business combinations

Business combinations are accounted for using the acquisition method when the acquisitions of companies and/or assets meet the definition of a business under IFRS. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The acquired identifiable assets and liabilities and any contingent consideration are measured at their fair value at the date of acquisition. The fair value of property, plant and equipment is the estimated amount for which these assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Any excess of the purchase price over the fair value of the identifiable assets and liabilities acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable assets and liabilities, the difference is recorded as a gain in profit or loss. Associated transaction costs are expensed when incurred.

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values when available, income approach and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

d) Cash & cash equivalents

Cash and cash equivalents includes cash on hand, deposits held with banks, cash in transit and short-term investments with a maturity of three months or less when purchased.

e) Inventory

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

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

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

f) Emission credits and allowances

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

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

Emission credits granted to the Corporation under the British Columbia low carbon fuel standard for achieving certain capital project investment milestones are valued at fair value less costs to sell. The cost to sell is usually nominal. Fair value is determined based on market prices or forward contracted prices. When earned, the emission credits are recognized in inventory as held for sale. Subsequent to initial recognition, any changes to fair value less cost to sell are recorded in the consolidated statements of net income and comprehensive income. Proceeds on sale are recorded within investing activities in the consolidated statements of cash flows.

g) Investments

The Corporation uses the equity method to account for its investment in RCC, over which it has joint control. Equity investments are initially measured at cost and are adjusted for the Corporation's proportionate share of earnings or losses. Equity investments are increased for contributions made and decreased for distributions received. The Corporation funds its portion of development, construction or capital expansion projects through capital contributions and classifies these contributions as cash used in investing activities in its Consolidated Statement of Cash Flows. The Corporation considers distributions received as a return on investment to the extent that the distribution was generated through operating results, and therefore classifies these distributions as cash flows from operating activities in its Consolidated Statement of Cash Flows.

An equity method investment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. When such condition is deemed other than temporary, the carrying value of the investment is written down to its fair value, and an impairment charge is recorded in the consolidated statement of net income and comprehensive income.

h) Leases

Lease identification and initial measurement

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 applies 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 at 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.

Subsequent measurement

After initial recognition, the lease liability is accreted for the passage of time and reduced for lease settlements made during each period. 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.

After initial recognition, the right-of-use asset is depreciated on a straight-line basis over the term of the lease. The right-of-use asset is considered a non-monetary item and is reported using the exchange rate at the lease commencement date. Similar to property, plant and equipment, right-of-use assets are subject to the impairment requirements of *IAS 36, Impairment of Assets*. The Corporation assesses right-of-use assets whenever events or changes in circumstances indicate that the carrying value of the right-of-use asset may not be recoverable. An impairment loss is recognized immediately in the statement of net income (loss) for the amount that the right-of-use asset's carrying amount exceeds its recoverable amount.

i) Property, plant and equipment

Measurement

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Initial cost includes expenditures that are directly attributable to the acquisition or construction of the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Corporation and the costs can be measured reliably.

Major maintenance programs (turnaround costs) comprise costs of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the item will flow to the Corporation, the expenditure is capitalized and the carrying amount of the replaced asset is derecognized. Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other repair and maintenance costs are expensed as incurred.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recognized separately in profit or loss.

Borrowing costs in connection with the borrowing of funds that are attributable to the acquisition, construction or production of a qualifying asset are capitalized when the assets take a significant period of time to get ready for use or sale. Other borrowing costs are expensed as incurred.

Depreciation

Depreciation commences when property, plant and equipment are considered available for use. Depreciation is recognized in profit or loss on a straight-line basis over the useful lives of each component of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. When an item of property, plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Assets under construction are not depreciated until they are in the location and condition necessary to be capable of operating in the manner intended by management, at which point the assets under construction are transferred to property, plant and equipment.

The Corporation allocates the amount initially recognized in respect of an item of property, plant and equipment by significant component within each CGU and depreciates each component separately, as applicable. Major maintenance (turnaround costs) are depreciated over the period to the next scheduled maintenance.

The depreciation method and estimated useful life of the Corporation's property, plant and equipment are as follows:

Asset	Depreciation Method	Estimated Useful Life
Storage, injection & withdrawal facilities	Straight-line	20 - 50 years
Gathering systems	Straight-line	20 - 50 years
Refinery units	Straight-line	20 - 50 years
Equipment	Straight-line	10 - 20 years

Depreciation method and useful lives of the assets are reviewed annually and adjusted if appropriate.

Impairment

The carrying values of the Corporation's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. These indicators include but are not limited to, the economic performance of the assets, the Corporation's business plans, changes in commodity prices leading to lower activity levels, an increase in the discount rate and evidence of physical damage. If any such indication exists, then the CGU's recoverable amount is estimated.

For the purpose of assessing impairment, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGUs. Recoverability is measured by comparing the carrying amount of the asset or the CGU to which the asset belongs to the higher of its value in use and its fair value less costs of disposal. Value in use is calculated using estimated discounted future cash flows generated by the asset or its CGU. The Corporation estimates fair value less cost to sell based upon recent market transactions for similar assets. In the absence of such transactions, an appropriate valuation model is used.

An impairment loss is recognized if the carrying amount of an asset or its respective CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss in respect of property, plant and equipment recognized in prior years is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation if no impairment loss had been recognized. Reversals of impairment losses are recognized in profit or loss.

j) Government grants

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

k) Provisions and contingent liabilities

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

l) Decommissioning obligations

Decommissioning obligations are recognized for decommissioning and restoration obligations associated with the Corporation's property, plant and equipment. The best estimate of the expenditure required to settle the present obligation at the statement of financial position date is recorded on a discounted basis using the pre-tax credit-adjusted risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated property, plant and equipment asset and is depreciated in accordance with the depreciation policy. The obligation is accreted over time through charges to finance costs and other. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning obligation and associated property, plant and equipment asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the obligation as the costs are incurred.

m) Warrant liability

The warrants issued are classified as a financial liability due to their exercise features and are measured at fair value upon issuance and at each subsequent reporting period. The changes in fair value are recognized in net income (loss). The fair value of these warrants is determined using the Black-Scholes option valuation model.

n) Income taxes

Income taxes are comprised of current and deferred taxes. Income taxes are recognized in net income (loss) except to the extent that they relate to items recognized directly in equity, in which case the related income taxes are also recognized directly in equity.

Current income taxes are based on the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred taxes are recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized.

o) Revenue

Revenue is measured at the fair value of the consideration received or receivable, after eliminating intercompany sales. Revenue from the rendering of services or the sale of goods is recognized when a specific performance obligation is satisfied through the transfer of goods or services to a customer.

In addition to the above general principle, the Corporation also applies the following specific revenue recognition policies:

i) Low carbon fuels and renewable products revenue

The Corporation generates revenue from the sale of renewable products. Revenue is recognized when the good is transferred to the customer at an amount that reflects the consideration to which the Corporation expects to be entitled to in exchange for those goods or services. Performance obligations associated with the sale of these products are satisfied at the point in time when the products are delivered to and title passes to the customer.

ii) Processing and service revenue

Processing and service revenue is generated through arrangements that are designed to recover operating costs and provide a return on capital. Fees are charged for processing intermediate products, storing liquid volumes and loading trucks and railcars through multi-year agreements. The performance obligation from this form of revenue is normally met in the period in which the services are rendered, in accordance with the applicable agreements. Under these arrangements, a fee is charged per unit processed, stored, or loaded and through the recovery of operating costs for the facility based upon that customer's pro-rata share of total unit throughput. Users of each unit are charged a fee per unit based upon that customer's pro-rata share of total throughput, with an adjustment to actual costs and throughput completed after the end of each year. Revenue from take-or-pay arrangements is recognized as the service is provided or in accordance with the terms of the agreement.

Throughput volumes and operating costs are reviewed to determine whether the estimated unit fee charged properly reflects the actual volumes and costs. The allocation of revenues and operating costs to other unit owners are also reviewed. Amounts collected in excess of the recoverable amounts are recorded as a current liability and recoverable amounts in excess of the amounts collected are recorded as a current receivable.

Rail loading and unloading fees are recognized when the volumes are delivered or received.

iii) Gas storage revenue

The Corporation's gas storage assets store natural gas for customers, including financial institutions. Storage revenue is generated through arrangements to acquire, inject, store, withdraw and dispose of customers' natural gas. The performance obligation from this form of revenue is normally met in the period in which the services are rendered, in accordance with the applicable third-party agreements. Under these arrangements, the fee is recognized in the period in which the gas acquisition, injection, storage, withdrawal, or disposition occurs. Because the Corporation does not take title to the customer's gas, the Corporation's gas storage inventory transactions are not recorded on the statement of financial position.

p) Operating and general and administrative expenses

Operating expenses consist of the weighted average cost of renewable feedstocks, storage and transportation fees, truck and rail; various field operating expenses, including salaries and benefits for operations personnel; fuel and power costs; maintenance and integrity management costs; regulatory compliance; insurance; and property taxes. General and administrative expenses consist primarily of salaries and benefits; legal fees; information systems; contract and consultant costs; and audit and tax fees.

q) Share-based compensation

The Corporation has a share-based incentive plan in the form of stock options, DSUs, RSUs, PSUs and ESPP.

Stock options granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method. The fair value of each option granted is estimated on the date of grant and that value is recorded as share-based compensation expense over the vesting period of the grants, with a corresponding increase to employee share reserve. The consideration received by the Corporation on the exercise of stock options is recorded as an increase to share capital together with corresponding amounts previously recognized as employee share reserve. Forfeitures are estimated based on historical information for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period. In order to record share-based compensation expense, the Corporation estimates the fair value of stock options granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeiture rates and expected dividend yields.

DSUs granted to directors of the Corporation are accounted for using the fair value method. Although DSUs vest immediately, they can only be redeemed upon termination or separation of service from the Corporation. DSUs may be settled in cash or in shares of the Corporation at the option of the Corporation. The fair value of each unit granted is estimated on the date of grant and that value is recorded as share-based compensation expense, with a corresponding increase to employee share reserve. In order to record share-based compensation expense, the Corporation estimates the fair value of the units granted using assumptions related to interest rates, volatility of the underlying security and expected dividend yields.

RSUs granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method. The fair value of each RSU granted is estimated on the date of grant and that value are recorded as share-based compensation expense over the vesting period of the grants, with a corresponding increase to employee share reserve. RSUs vest over three years and expire in three years. Forfeitures are estimated based on historical information for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period. In order to record share-based compensation expense, the Corporation estimates the fair value of RSUs granted using assumptions related to interest rates, expected lives of the options, volatility of the underlying security, forfeiture rates and expected dividend yields.

PSUs are granted to officers, employees and consultants of the Corporation. The Board of Directors designates, at the time of grant, the date or dates on which all or a portion of the PSUs will vest and any performance conditions to such vesting. The fair value of the PSUs is determined on the grant date based on the market price of the common shares on the grant date. PSUs will be settled in equity in the amount equal to the fair value of the PSU on that date. The fair value is expensed over the vesting term on a graded vesting basis and represents the fair value for the graded vested portion of the PSUs outstanding. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of PSUs that vest.

The ESPP allows eligible employees to purchase common shares of the Corporation. The Corporation will match from 50% to 100% of the employee’s contribution, depending on years of service, up to a maximum of 5% of the employee’s base salary. The shares are acquired on the TSX consistent with the timing of the employee’s remuneration. The cost of the shares purchased to match the employee’s contribution is expensed as incurred.

r) Earnings per share

Basic earnings per common share is computed by dividing net income attributable to shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share amounts are calculated giving effect to the potential dilution that would occur if contracts to issue common shares were exercised, fully vested, or converted to common shares. The treasury stock method is used to determine the dilutive effect of dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money dilutive instruments are used to repurchase common shares at the average market price during the period.

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

4. ACQUISITIONS

Initial Acquisition

On August 18, 2021, in conjunction with the closing of the Offering, the Corporation closed its acquisition of certain renewable assets from Tidewater Midstream (the "Acquired Assets") for aggregate consideration of $538.5 million (including $180.0 million in cash and the balance in common shares). The Acquired Assets will create the initial business of the Corporation. The Acquired Assets include various working interests in the following: steam methane reformer, unifiner reactor, canola co-processing unit, certain utilities, storage tanks and rail and truck rack, which are located at the Prince George refinery in Prince George, British Columbia and 100% working interest in a renewable storage reservoir and related infrastructure assets, located in central Alberta. As part of the transaction, Tidewater Midstream transferred $180.0 million of deductible income tax pools to the Corporation on a tax deferred basis.

The acquisition was accounted for as a business combination under common control, which results when the Corporation subject to the acquisition is ultimately controlled by the same party before and after the combination transaction. Tidewater Midstream controlled the Acquired Assets prior to August 18, 2021 and retained approximately 69% of the Corporation's common shares after closing. IFRS 3 scopes out business combinations under common control and is not prescriptive otherwise as to the method of accounting for such transactions. In the absence of specific guidance in IFRS, the Corporation has the option to account for the transaction at cost or using the acquisition method under IFRS 3. The Corporation determined that the acquisition method is an acceptable accounting policy choice since the transaction has commercial substance and fair value accounting provides the most relevant and reliable information for the users of the financial statements. The acquisition has been accounted for as a business combination using the acquisition method where the acquired assets and liabilities assumed are recorded at their estimated fair values, with the exception of deferred income tax liabilities, right-of-use assets and leases liabilities, which are measured in accordance with the Corporation's accounting policies. Management applied an income approach using a discounted future cash flow model to determine the fair value of the property, plant and equipment acquired.

The following summarizes the purchase price allocation:

Consideration for the acquisition:		
Cash	$	180,000
Common shares		358,500
Total consideration	$	538,500

Allocation of the purchase price:		
Right-of-use asset	$	24,387
Property, plant, and equipment		668,884
Lease liability - current		(5,351)
Lease liability - long term		(19,036)
Decommissioning obligations		(1,129)
Deferred tax liabilities		(129,255)
Total net assets acquired	$	538,500

Results from the Acquired Assets are included in the Corporation's consolidated financial statements from the closing date of the transaction. In 2021, revenue of $23.1 million and earnings before tax of $2.8 million, after transaction costs of $1.3 million, were included in the consolidated statement of net income and comprehensive income associated with the acquisition. If the Acquired Assets were purchased at inception on May 11, 2021, the Corporation would have generated an additional $15.9 million of revenue, incurred an additional $4.8 million of operating expenses, and generated an additional $3.7 million of net income for the period from date of incorporation, May 11, 2021, to December 31, 2021.

Feedstock Supplier Acquisition

On December 10, 2021, the Corporation closed its acquisition of a used cooking oil supplier (the "Feedstock Supplier") by acquiring all the issued and outstanding shares of the Feedstock Supplier for aggregate consideration of $3.3 million. The acquisition is aligned with the Corporation's feedstock strategy to supply its renewable fuels operations. The Feedstock Supplier's assets include collection receptacles, vehicles and various processing equipment. The acquisition has been accounted for as a business combination using the acquisition method where the acquired assets and liabilities assumed are recorded at their estimated fair values, with the exception of deferred income tax liabilities, right-of-use assets, and leases liabilities, which are measured in accordance with the Corporation's accounting policies.

The following summarizes the purchase price allocation:

Consideration for the acquisition ($000s):		
Cash	$	2,172
Common shares		1,096
Total consideration	$	3,268

Allocation of the purchase price:		
Accounts receivable	$	52
Prepaids and other		4
Right-of-use asset		22
Property, plant, and equipment		4,370
Trade payables and accrued liabilities		(234)
Lease liability - current		(19)
Lease liability - long term		(3)
Deferred tax liabilities		(924)
Total net assets acquired	$	3,268

Results from the Feedstock Supplier are included in the Corporation's consolidated financial statements from the closing date of the transaction. In 2021, revenue and earnings before tax associated with the acquisition have been nominal. If the Feedstock Supplier was acquired at inception on May 11, 2021, the Corporation would have generated an additional $1.0 million of revenue, incurred an additional $0.7 million of operating expenses, and generated an additional $0.3 million of net income for the period from date of incorporation, May 11, 2021, to December 31, 2021.

5. INVENTORY AND EMISSION CREDITS

The following summarizes the Corporation's inventory:

		December 31, 2022		December 31, 2021
Renewable feedstocks	**$**	**1,094**	$	-
Capital emissions credits		**23,485**		-
	$	**24,579**	$	-

Capital emissions credits are carried at fair value less cost to sell based on market prices or forward contracted prices. During the year ended December 31, 2022, the Corporation generated $56.0 million (2021 - $NIL) of BC LCFS credits for achieving construction milestones on its renewable diesel and renewable hydrogen complex. During the year ended December 31, 2022, the Corporation sold BC LCFS credits to third parties for proceeds of $33.3 million (2021 - $NIL).

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

6. INVESTMENTS

The following table summarizes the Corporation's investments:

		December 31, 2022		December 31, 2021
Investment in RCC [(1)]	**$**	**30,221**	$	-
Investments at fair value		**100**		-
	$	**30,321**	$	-

(1) Accounted for by the equity method.

On April 4, 2022, the Corporation announced its strategic partnership in RCC, an Alberta based cattle feeding operation. Under the terms of its investment agreement, the Corporation purchased a 50% ownership of RCC for $30.0 million. The final instalment of $7.5 million was made on January 3, 2023, and was included in trade payables and accrued liabilities as at December 31, 2022.

The tables below provide RCC's summarized financial information (presented at 100 percent):

Net Income and Comprehensive Income

		For the year ended December 31, 2022
Revenue	$	91,492
Operating expenses		85,098
General and administrative		1,077
Depreciation		2,366
Finance costs and other		2,370
Income tax expense		139
Net income and comprehensive income	**$**	**442**
Net income and comprehensive income attributable to Tidewater Renewables	**$**	**221**

Statement of Financial Position

		December 31, 2022
Current assets	$	84,935
Non-current assets		68,197
Current liabilities		50,143
Non-current liabilities		42,548

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

7. RIGHT-OF-USE ASSETS

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

		Railcars		Field equipment		Total
COST						
Balance, May 11, 2021	$	-	$	-	$	-
Acquisitions		24,211		198		24,409
Balance, December 31, 2021	$	24,211	$	198	$	24,409
Additions		1,248		18		1,266
Terminations		-		(176)		(176)
Balance, December 31, 2022	$	25,459	$	40	$	25,499
ACCUMULATED DEPRECIATION						
Balance, May 11, 2021	$	-	$	-	$	-
Depreciation		1,628		122		1,750
Balance, December 31, 2021	$	1,628	$	122	$	1,750
Depreciation		4,772		87		4,859
Terminations		-		(176)		(176)
Balance December 31, 2022	$	6,400	$	33	$	6,433
NET BOOK VALUE		Railcars		Field equipment		Total
December 31, 2021	$	22,583	$	76	$	22,659
December 31, 2022	**$**	**19,059**	**$**	**7**	**$**	**19,066**

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

		Plant and infrastructure		Assets under construction		Other		Total
COST								
Balance, May 11, 2021	$	-	$	-	$	-	$	-
Acquisitions		625,914		42,970		4,370		673,254
Additions		1,357		29,617		-		30,974
Completed projects		11,110		(11,110)		-		-
Balance, December 31, 2021	$	638,381	$	61,477	$	4,370	$	704,228
Additions		13,988		229,179		1,409		244,576
Decommissioning asset (note 11)		(121)		-		-		(121)
NCI contributions (note 15)		-		6,500		-		6,500
Capital emission credits awarded (note 5)		-		(55,965)		-		(55,965)
December 31, 2022	$	652,248	$	241,191	$	5,779	$	899,218
ACCUMULATED DEPRECIATION								
Balance, May 11, 2021	$	-	$	-	$	-	$	-
Depreciation		4,956		-		1		4,957
Balance, December 31, 2021	$	4,956	$	-	$	1	$	4,957
Depreciation		14,018		-		566		14,584
December 31, 2022	$	18,974	$	-	$	567	$	19,541
NET BOOK VALUE		Plant and infrastructure		Assets under construction		Other		Total
December 31, 2021	$	633,425	$	61,477	$	4,369	$	699,271
December 31, 2022	**$**	**633,274**	**$**	**241,191**	**$**	**5,212**	**$**	**879,677**

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

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

9. BANK DEBT

The following table summarizes the Corporation's bank debt:

		December 31, 2022		December 31, 2021
Senior Credit Facility	**$**	**72,611**	$	60,000
Financing costs		**(2,129)**		(1,048)
Total bank debt	**$**	**70,482**	$	58,952

The Corporation has a revolving credit facility (the "Senior Credit Facility") with a syndicate of banks. Total aggregate availability under the Corporation's Senior Credit Facility is $150.0 million and matures on August 18, 2024. The Senior Credit Facility can be drawn in either Canadian or U.S. funds and bears interest at the agent bank's prime lending rate or banker's acceptance rates, plus applicable margins.

Tidewater Renewables is required to maintain certain financial covenants on a trailing-quarterly basis. The calculations for each of these ratios are based on specific definitions in the agreements governing the Senior Credit Facility, are not in accordance with GAAP, and cannot be easily calculated by referring to the Corporation's financial statements.

Tidewater Renewables financial covenants as at December 31, 2022 and 2021 were as follows.

	Ratio	**December 31, 2022**	December 31, 2021
Consolidated debt(1) to adjusted EBITDA	Maximum 4.5:1.0	**3.93**	1.54
Consolidated first lien(2) senior debt to adjusted EBITDA	Maximum 3.5:1.0	**1.34**	1.54
Adjusted EBITDA to interest coverage	Minimum 2.5:1.0	**7.05**	18.83

(1) Consolidated debt includes the Senior Credit Facility and the AIMCo Facility (note 10).
(2) First lien senior debt includes the Senior Credit Facility but excludes the AIMCo Facility (note 10).

The Corporation must also maintain contracts with investment grade entities representing no less than 80% of EBITDA having a term of no less than three years, provided that for purposes of this covenant, Tidewater Midstream shall be deemed to be investment grade.

During the year the Corporation, entered into and repaid a separate $26.3 million credit facility with a Canadian bank (the "RNG Credit Facility"). The RNG Credit Facility was secured by a first charge over the Corporation's equity investment in RCC and its ownership interest in RNG LP, as well as a subordinated charge over the Corporation's remaining assets.

At December 31, 2022, Tidewater Renewables had $5.0 million (December 31, 2021 - $NIL) of letter of credit outstanding, which operates under a separate facility.

10. TERM DEBT AND WARRANT LIABILITY

The following table summarizes the Corporation's term debt:

		December 31, 2022		December 31, 2021
Senior Secured Second Lien Credit Facility	**$**	**150,000**	$	-
Discount on debt(1)		**(22,118)**		-
Total term debt	**$**	**127,882**	$	-

(1) Includes the original issue discount, debt issuance costs and the fair value of the warrant liability upon issuance, net of accretion.

On October 24, 2022, the Corporation announced the closing of a five-year senior secured second lien credit facility (the "AIMCo Facility") with a face value of $150.0 million through an affiliate of Alberta Investment Management Corporation ("AIMCo"). The AIMCo Facility was issued along with 3.4 million warrants, which entitles the holder to purchase one common share of Tidewater Renewables for a term of five years. The AIMCo Facility is subordinated to and is subject to the same financial covenants as Tidewater Renewables' Senior Credit Facility, as described in note 9. The AIMCo Facility is due on October 24, 2027, and interest is paid semi-annually.

The AIMCo Facility initially bears interest of 6.50% per annum, increases by 37.5 basis points in year four & year five and is subject to certain inflation escalators. The original issue discount, issuance costs incurred and value of the warrants at issuance are amortized using the effective interest rate over the remaining term of the debt.

The Corporation, at its option may redeem up to 100% of the original principal amount with a 2.5% penalty after the second anniversary date or without penalty after the third anniversary date.

The following table summarizes the Corporation's warrant liability upon issuance and at December 31, 2022:

	Number of warrants outstanding (000s)		Fair value
Upon issuance, October 24, 2022	3,375	$	10,450
Balance, December 31, 2022	3,375		12,445
Loss on warrant liability revaluation	-	$	1,995

At the holder's option, the warrants may be redeemed via the following methods:

- A traditional exercise, whereby the warrant holder pays the exercise price and received a fixed number of common shares;
- A cashless exercise, whereby the Corporation issues a net number of common shares to settle the difference between the exercise price and the trading price of the common shares without the warrant holder paying the exercise price; and
- A cashless exercise, whereby the Corporation, cash pays the difference between the exercise price and the trading price of the common shares without the warrant holder paying the exercise price.

If Tidewater Renewables is unable or not permitted to make some, or all, of a cash payment that AIMCo has requested, the Corporation will assist AIMCo in the sale of the common shares and is obligated to pay certain market slippage costs of up to 15% and related sales costs.

AIMCo's warrant exercise price may be reduced by $2.00, on a pro rata basis, if the AIMCo Facility, or a portion thereof, has been repaid and the cumulative Canadian consumer price index is greater than 4% per annum. This feature is cancelled if AIMCo transfers the warrants to a third party. The warrant exercise price is also reduced by the cumulative amount of any dividends paid on a per share basis.

The warrants are classified as a financial liability due to the cashless exercise feature. They were measured at their fair value upon issuance and at each subsequent reporting period. The fair value of the warrants was determined using the Black-Scholes Option Pricing Model, including the following assumptions:

		Year end December 31, 2022		Issuance October 24, 2022
Exercise price per share ($)	**$**	**14.84**	$	14.84
Common share price ($)	**$**	**11.51**	$	10.56
Volatility factor of expected market price (%)		**41.04%**		39.77%
Risk-free interest rate (%)		**3.41%**		3.71%
Remaining life in years		**4.81**		5.00
Expected annual dividend per share (%)		**0.00%**		0.00%
Fair value per warrant ($)	**$**	**3.69**	$	3.10

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

A 10% change in the Corporation's share price would have an after-tax impact on net income of $1.9 million for the year ended December 31, 2022.

11. DECOMMISSIONING OBLIGATIONS

The decommissioning obligation reflects the discounted cash flows expected to be incurred to decommission the Corporation's pipeline systems, storage facilities, and refinery units. The estimated economic lives of assets covered by the decommissioning provision range up to 150 years. At December 31, 2022, the obligation was inflated using a rate of 2.0% (December 31, 2021 – 1.75%) and discounted using a credit-adjusted risk-free rate of 9.0% (December 31, 2021 – 7.5%).

The following table summarizes changes in the decommissioning obligations:

		December 31, 2022		December 31, 2021
Balance, beginning of year	**$**	**1,171**	$	-
Acquisitions		**-**		1,129
Change in discount rates and estimates		**(121)**		-
Accretion		**113**		42
Balance, end of year	**$**	**1,163**	$	1,171

12. LEASE LIABILITIES

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

		December 31, 2022		December 31, 2021
Balance, beginning of year	**$**	**22,912**	$	-
Acquisitions		**-**		24,409
Additions		**1,266**		-
Accretion		**1,393**		575
Lease payments		**(5,982)**		(2,147)
Foreign exchange re-measurement		**1,412**		75
Total lease liabilities	**$**	**21,001**	$	22,912
Current portion of lease liabilities		**6,128**		5,535
Long term lease liabilities		**14,873**		17,377

Undiscounted payments associated with lease liabilities as at December 31, 2022 are summarized below:

		Within one year		After one year but not more than five years		More than five years		Total
Undiscounted lease payments	$	6,312	$	17,457	$	-	$	23,769

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

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

13. INCOME TAXES

The provision for deferred taxes in the statements of income and comprehensive income reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

		Year ended December 31, 2022		For the period from date of incorporation, May 11, 2021, to December 31, 2021
Income before taxes	**$**	**35,908**	$	3,997
Combined federal and provincial tax rates[(1)]		**26.5%**		26.5%
Expected tax expense		**9,516**		1,059
Differences from:				
Share-based compensation		**555**		180
Other		**(105)**		(5)
Deferred income tax expense	**$**	**9,966**	$	1,234

(1) The Corporation's tax rate of 26.5% consists of the combined federal and provincial statutory rates for the period ended December 31, 2022 and 2021.

The following table summarizes the movement of deferred taxes:

Asset (Liability)		December 31, 2021		Recognized in: Profit or loss		Recognized in: Equity		**December 31, 2022**
Property, plant and equipment and leases	$	(136,366)	$	(6,965)	$	-	**$**	**(143,331)**
Decommissioning obligation		310		(2)		-		**308**
Derivative contracts		411		(2,404)		-		**(1,993)**
Unamortized share issuance costs and finance costs		2,317		255		-		**2,572**
Non-capital losses		4,842		(850)		-		**3,992**
Total	$	(128,486)	$	(9,966)	$	-	**$**	**(138,452)**

Asset (Liability)		May 11, 2021		Recognized in: Acquisitions (note 4)		Recognized in: Profit or loss		Recognized in: Equity		December 31, 2021
Property, plant and equipment and leases	$	-	$	(130,539)	$	(5,827)	$	-	$	(136,366)
Decommissioning obligation		-		299		11		-		310
Derivative contracts		-		-		411		-		411
Unamortized share issuance costs and finance costs		-		-		(610)		2,927		2,317
Non-capital losses		-		61		4,781		-		4,842
Total	$	-	$	(130,179)	$	(1,234)	$	2,927	$	(128,486)

As at December 31, 2022, the Corporation has estimated federal tax pools of $352 million (2021 - $195 million) available for deduction against future taxable income. The Corporation has $15 million (2021 - $17 million) of unused tax losses expiring between 2041 and 2042.

14. SHARE CAPITAL

a) Authorized

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

b) Issued

	December 31, 2022			December 31, 2021		
	Number of Shares (000s)		**Amount**	Number of Shares (000s)		Amount
Balance, beginning of year	**34,712**	**$**	**512,483**	-	$	-
Issue of common shares – initial public offering	-		-	10,735		161,025
Issue of common shares – acquisitions	-		-	23,977		359,596
Issue of common shares – long term incentive plan	7		99	-		-
Share issuance costs (net of tax)	-		(8)	-		(8,138)
Balance, end of year	**34,719**	**$**	**512,574**	34,712	$	512,483

Upon incorporation, the Corporation issued 1 common share for nominal cash proceeds. Prior to the Offering, the Corporation also issued 50,000,000 voting preferred shares to Tidewater Midstream for cash proceeds of $1,000, which were subsequently redeemed.

On August 12, 2021, the Corporation filed a supplemented PREP prospectus to qualify the distribution of 10 million common shares of the Corporation at a price of $15.00 per common share for aggregate gross proceeds of $150 million (the "Offering"). In connection with the Offering, the Corporation issued 23.9 million common shares to Tidewater Midstream as part of the consideration for certain acquired assets. On September 15, 2021, the underwriters exercised their over-allotment option, in part, to purchase an additional 0.7 million common shares at the Offering price of $15.00 per common share for gross proceeds of $11 million. The partial exercise of the over-allotment option increased the total gross proceeds of the Offering to $161 million. Underwriter commissions of $9.7 million were 6% of the total gross proceeds raised from the Offering.

15. NON-CONTROLLING INTEREST

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

16. REVENUE AND OPERATING EXPENSES

For the year ended December 31, 2022, and for the period from date of incorporation, May 11, 2021 to December 31, 2021, the Corporation had one vertically integrated operating segment: renewable energy, as the chief operating decision maker reviews operating results at this level to assess financial performance and make resource allocation decisions. The renewable energy operating segment includes the following revenue categories: renewable fuels and renewable natural gas. Amounts disclosed below do not include realized or unrealized gains and losses on derivative contracts resulting from the Corporation's commodity price risk management initiatives.

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

For the year ended December 31, 2022		Renewable Fuels		Renewable Natural Gas		Total
Revenue	$	65,366	$	10,733	$	76,099
Operating expenses		26,900		3,071		29,971
Gross margin	$	38,466	$	7,662	$	46,128

For the period from date of incorporation, May 11, 2021 to December 31, 2021		Renewable Fuels		Renewable Natural Gas		Total
Revenue	$	19,486	$	3,569	$	23,055
Operating expenses		6,443		931		7,374
Gross margin	$	13,043	$	2,638	$	15,681

17. FINANCE COSTS AND OTHER

Finance costs and other is comprised of the following:

		For the year ended December 31, 2022		For the period from date of incorporation, May 11, 2021, to December 31, 2021
Interest on bank debt and term debt	**$**	**7,650**	$	790
Interest capitalized (1)		**(4,000)**		(155)
Total interest expense		**3,650**		635
Realized foreign exchange gain		**(235)**		-
Unrealized foreign exchange loss (2)		**1,412**		75
Revaluation of capital emission credits		**(800)**		-
Total finance costs and other before accretion	**$**	**4,027**	$	710
Unwinding of discount on decommissioning obligations		**113**		42
Unwinding of discount on long-term debt		**2,014**		149
Unwinding of discount on lease liabilities		**1,393**		575
Accretion		**3,520**		766
Total finance costs and other	**$**	**7,547**	$	1,476

(1) For the year ended December 31, 2022, interest was capitalized at an annualized weighted average capitalization rate of approximately 6.2% on funds borrowed (December 31, 2021 – 4.2%).
(2) Relates to translation of USD denominated lease liabilities.

18. SHARE-BASED COMPENSATION

a) Share Awards

A summary of the stock options, restricted share units and deferred share units granted, issued and outstanding is as follows:

December 31, 2022	Stock Options	RSUs	DSUs	Total
Outstanding, January 1, 2022	182	152	15	349
Granted	671	726	30	1,427
Exercised	-	(15)	-	(15)
Forfeited	(98)	(53)	-	(151)
Outstanding, December 31, 2022	**755**	**810**	**45**	**1,610**
Exercisable, December 31, 2022	**56**	**41**	**-**	**97**

December 31, 2021	Stock Options	RSUs	DSUs	Total
Outstanding, May 11, 2021	-	-	-	-
Granted	182	152	15	349
Outstanding, December 31, 2021	**182**	**152**	**15**	**349**
Exercisable, December 31, 2021	**-**	**-**	**-**	**-**

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

	December 31, 2022	December 31, 2021
Volatility factor of expected market price (%)	**52%**	55%
Weighted average risk-free interest rate (%)	**2.23%**	1.46%
Weighted average expected life in years	**3.00**	3.00
Weighted average expected annual dividend per share (%)	**0.00%**	0.00%
Weighted average fair value per option ($)	**$ 5.19**	$ 5.19
Weighted average forfeiture rate (%)	**7.00%**	7.00%

A summary of stock options outstanding is as follows:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Price	Number of Stock Options Outstanding (000s)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Stock Options Exercisable (000s)	Weighted Average Exercise Price
$ 11.52 - $ 11.69	206	4.5	$ 11.60	-	-
$ 12.99	400	5.0	$ 12.99	-	-
$ 15.00	149	3.9	$ 15.00	56	15.00

b) PSU Plan

The following table summarizes the performance share units outstanding:

	December 31, 2022	2021
Balance, beginning of year	**$ 320**	$ -
Granted	**1,061**	320
Exercised	**(105)**	
Forfeited	**(331)**	-
Balance, end of year	**$ 945**	$ 320

c) Employee Stock Purchase Plan

Tidewater Renewables maintains an employee stock purchase plan whereby eligible employees can purchase common shares of the Corporation. Tidewater Renewables will match 100% of the employee's contribution, up to a maximum of 5% of the employee's base salary. The shares are acquired on the Toronto Stock Exchange consistent with the timing of the employee's remuneration. The cost of shares purchased to match the employee's contribution is expensed as incurred.

d) Share-Based Compensation Expense

Share-based compensation is comprised of the following:

	Year ended December 31, 2022	2021
Stock options	**$ 631**	$ 147
Restricted Share Units (RSUs)	**1,968**	277
Deferred Share Units (DSUs)	**353**	226
Performance Share Units (PSUs)	**207**	30
Employee Stock Purchase Plan (ESPP)	**25**	-
Plan costs and other	**33**	-
Share-based compensation expense	**$ 3,217**	$ 680

19. NET INCOME PER SHARE

	December 31, 2022			December 31, 2021		
	Net income	**Common shares (000s)**	**Net income per share**	Net income	Common shares (000s)	Net loss per share
Net income attributable to shareholders - basic	**$ 25,942**	**34,712**	**$ 0.75**	$ 2,763	19,901	$ 0.14
Dilutive effect of share awards	**-**	**176**	**(0.01)**	-	-	-
Dilutive effect of warrants	**-**	**-**	**-**	-	-	-
Net income attributable to shareholders - diluted	**$ 25,942**	**34,888**	**$ 0.74**	$ 2,763	19,901	$ 0.14

For the year ended December 31, 2022, 0.2 million share awards (for the year ended December 31, 2021 – 0.2 million) and 0.6 million of warrants were anti-dilutive (for the year ended December 31, 2021 – NIL).

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	December 31, 2022	2021
Accounts receivable	**$ 3,118**	$ (6,971)
Prepaid expenses and other	**71**	(470)
Inventory	**(1,094)**	-
Trade payable and accrued liabilities	**6,618**	1,546
Change in non-cash working capital from operating activities	**$ 8,713**	$ (5,895)

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

	December 31, 2022	2021
Trade payable and accrued liabilities	**$ 46,901**	$ -
Change in non-cash working capital from investing activities	**$ 46,901**	$ -

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

c) Interest paid

During the year ended December 31, 2022, total interest and financing charges paid, prior to capitalization, was $15.7 million (for the year ended December 31, 2021- $2.0 million).

21. CAPITAL MANAGEMENT

The Corporation manages its capital with the following objectives:

- To ensure sufficient financial flexibility to meet ongoing business objectives including the funding of future growth opportunities and satisfaction of financial obligations; and
- To maximize shareholder return by enhancing share value.

The Corporation considers its capital employed to be bank debt, term debt and shareholders' equity:

		December 31, 2022		December 31, 2021
Bank debt	$	**70,482**	$	58,952
Term debt		**127,882**		-
Shareholders' equity		**543,625**		515,596

The Corporation makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Corporation generally relies on credit facilities and cash flows from operations in excess of interest to fund capital requirements. To maintain or modify its capital structure, the Corporation may issue new common or preferred shares, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt.

The Corporation is not currently subject to any externally imposed capital requirements, other than covenants on its bank debt (note 9) and term debt (note 10). The Corporation was compliant with all financial and non-financial covenants as at December 31, 2022 and 2021.

The Corporation also monitors capital structure based on consolidated net debt to adjusted EBITDA. The definition of adjusted EBITDA for capital management purposes is the same measure used in the calculation of the Corporation's financial covenants on its Senior Credit Facility (note 9) and the AIMCo Facility (note 10). This metric measures the Corporation's financial leverage.

The following table presents the Corporation's net debt:

		December 31, 2022		December 31, 2021
Senior Credit Facility	$	**72,611**	$	60,000
AIMCo Facility		**150,000**		-
Cash and cash equivalents		**(11,379)**		(1,022)
Net debt	$	**211,232**	$	58,978

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board of Directors have the overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, the Corporation's management has the responsibility to administer and monitor those risks.

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.

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

a) Fair value determination

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

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

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

The Corporation has used Level 2 to determine the fair value of its capital emissions credits held for trading, warrant liability and derivative contracts, which includes exchange-cleared commodity derivatives and over-the-counter commodity derivatives that are traded in observable markets.

At December 31, 2022, the fair value of cash and cash equivalents, accounts receivable, trade payables and accrued liabilities approximated their carrying value due to their short-term maturity. The carrying value of the outstanding bank debt and term debt approximated its fair value due to the use of floating interest rates.

b) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Corporation's accounts receivable from customers and joint interest partners. The maximum exposure to credit risk at December 31, 2022 and December 31, 2021 is as follows:

		December 31, 2022		December 31, 2021
Cash and cash equivalents	**$**	**11,379**	$	1,022
Accounts receivable		**3,905**		7,023
Derivative contracts – current		**14,062**		543
Derivative contracts – long term		**9,929**		-
	$	**39,275**	$	8,588

Cash and cash equivalents consist of amounts on deposit or in-transit with Canadian chartered banks. The Corporation manages credit exposure of cash and cash equivalents by selecting financial institutions with high credit ratings.

The Corporation performs creditworthiness assessment on counterparties, including financial status and external credit ratings. Depending on the outcome of each assessment, letters of credit, prepayments, or some other form of credit enhancement may be requested as security.

The Corporation's accounts receivable as at December 31, 2022 relate to contractual agreements. At December 31, 2022, the majority of all amounts owing to the Corporation were due from its controlling shareholder, Tidewater Midstream. Revenues earned from Tidewater Midstream for the year ended December 31, 2022 accounted for approximately 95% of the Corporation's revenues, totaled $72.8 million (December 31, 2021 - $22.7 million). At December 31, 2022, the Corporation does not have any receivables over 90 days. The Corporation believes the financial risks associated with Tidewater Midstream are minimal.

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

The Corporation assesses lifetime expected credit losses for accounts receivable using historical default rates, aged accounts receivable analysis and forward-looking information to determine the appropriate expected credit losses. At December 31, 2022, lifetime expected credit losses for accounts receivable outstanding were $0.2 million.

The Corporation enters into derivative contracts to manage commodity price risk, which may be subject to credit risk associated with counterparties with which it contracts. Credit risk is mitigated by only entering into contracts with stable, investment grade counterparties or financial institutions.

c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations at the point at which they are due. Management's assessment of its liquidity reflects estimates, assumptions and judgements relating to current market conditions.

The Corporation believes that it has access to sufficient capital through its working capital, contracted take-or-pay cash flows, and external sources to meet its obligations, financial commitments and anticipated capital expenditures. Uncertainties due to economic factors, further HDRD Complex cost increases, or an unanticipated delay of the HDRD Complex may cause liquidity risk for the Corporation. Management has reviewed this risk and considered the various initiatives and resources available to the Corporation to manage this risk. The Corporation expects it will have sufficient liquidity to meet its obligations as they come due.

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

	December 31, 2022		December 31, 2021	
	Less than one year	**Greater than one year**	Less than one year	Greater than one year
Trade payables and accrued liabilities	**$ 55,299**	**$ -**	$ 1,780	$ -
Warrant liability	**12,445**	**-**	-	-
Derivative contracts	**7,739**	**8,733**	-	2,095
Lease liabilities (1)	**6,312**	**17,457**	5,699	20,799
Bank debt (2)	**-**	**72,611**	-	60,000
Term debt (2)	**-**	**150,000**		
	$ 81,795	**$ 248,801**	$ 7,479	$ 82,894

(1) Amounts represent the expected undiscounted cash payments related to leases.
(2) Amounts represent undiscounted principal only and exclude accrued interest.

d) Market risk

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

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

i) Interest rate risk

Interest rate risk refers to the risk that the value of the financial instrument or cash flows associated with the financial instrument will fluctuate due to changes in market interest rates. The Corporation continuously monitors interest rates and economic conditions. The Corporation may use forward interest rate swaps to hedge the interest rate associated with interest payments occurring as a result of its bank debt. At December 31, 2022, the Corporation had variable rate bank debt (note 9) totaling $72.6 million (December 31, 2021 – $60.0 million) and therefore a 1% change in the interest rate on bank debt would have had an after-tax impact of $0.5 million on net income for the year ended December 31, 2022 (December 31, 2021 - $0.4 million). The Corporation's Term debt's interest rate has certain adjustment based on the Canadian CPI rate (note 10). Increasing the assumed inflation rate to the capped amount would have a nominal after-tax impact for the year ended December 31, 2022.

ii) Foreign currency exchange rate risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from certain working capital balances denominated in United States Dollars (USD). The Corporation continuously monitors exchange rate trends and economic conditions. At December 31, 2022, working capital and derivative contract balances denominated in USD were $4.2 million (December 31, 2021 - $1.2 million). A 5% change in foreign exchange rates between the USD and the Canadian Dollar would have an after-tax impact on net income of $0.2 million for the year ended December 31, 2022 (for the year ended December 31, 2021 - $0.1 million).

iii) Commodity price risk

Commodity price risk is the risk that the fair value of a commodity derivative will fluctuate because of changes in market prices. In the normal course of operations, the Corporation purchases and sells various commodities and uses derivatives to protect its revenue and operating costs from price fluctuations. The Corporation's commodity price risk management policies are designed to help ensure that its hedging activities address its risks by monitoring its derivative positions, as well as physical volumes, grades, locations, and storage capacity. These include renewable and low carbon fuel feedstocks, to hedge the cost of inputs for low carbon and renewable fuels. The Corporation is subject to price risk through these derivative contract assets and liabilities. A 10% change in prices for the underlying commodities, related to the Corporation's derivative contracts, would have an after-tax impact on net income of $24.6 million for the year ended December 31, 2022 (for the year ended December 31, 2021 - $13.9 million).

23. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT

The Corporation has entered into various take-or-pay, shared service agreements, and flow-through commodity hedging agreements with its controlling shareholder Tidewater Midstream. During the year ended December 31, 2022, the Corporation incurred the following related party transactions in connection with these agreements:

	Year ended December 31,			
		2022		2021
Revenue	**$**	**71,999**	$	22,719
Operating expenses	**$**	**23,525**	$	7,368
General and administrative	**$**	**2,016**	$	526
Realized gain on derivative contracts	**$**	**(8,758)**	$	(1,137)
Unrealized loss (gain) on derivative contracts	**$**	**(28,214)**	$	1,552

At December 31, 2022, the Corporation has $1.8 million of accounts receivable (December 31, 2021 - $7.0 million) and $10.1 million of trade payables and accrued liabilities (December 31, 2021 - $NIL) due from/ to Tidewater Midstream.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation. Key management personnel include directors, officers and executive vice-presidents. Key management compensation is comprised of the following:

	Year ended December 31,	
	2022	2021
Salaries and other short-term benefits	**$ 2,014**	$ 138
Share based compensation	**2,002**	405
Total key management personnel remuneration	**$ 4,016**	$ 543