



Condensed Interim Consolidated Financial Statements
For the three month period ended March 31, 2024

Tidewater Renewables Ltd.

Condensed Interim Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands of Canadian dollars)

As at	Notes	March 31, 2024	December 31, 2023
Assets			
Current			
Cash and cash equivalents		\$ 12,126	\$ 105
Accounts receivable		14,935	7,011
Derivative contracts		205	304
Inventory and emission credits	3	40,295	43,807
Prepaid expenses and other		5,498	8,305
		73,059	59,532
Investments	4	36,540	31,001
Right-of-use assets		15,288	16,669
Property, plant and equipment	5	956,435	979,496
Total assets		\$ 1,081,322	\$ 1,086,698
Liabilities			
Current			
Accounts payables, accrued liabilities and provisions	12(a)	\$ 69,926	\$ 61,779
Deferred revenues	3	8,858	-
Derivative contracts		26,367	27,299
Bank debt	6	143,202	170,474
Term debt	7	24,500	24,500
Lease liabilities		6,801	6,646
Warrant liability	7	2,710	3,195
		282,364	293,893
Term debt	7	133,765	132,544
Derivative contracts		14,118	18,836
Lease liabilities		10,231	11,433
Provisions		1,274	1,247
Deferred tax liabilities		117,902	115,618
Total liabilities		559,654	573,571
Equity			
Non-controlling interest		6,500	6,500
Shareholders' equity			
Share capital	8	513,275	513,043
Employee share reserve		6,487	5,898
Retained earnings (deficit)		(4,594)	(12,314)
Total shareholders' equity		515,168	506,627
Total shareholders' equity and non-controlling interest		521,668	513,127
Total liabilities and equity		\$ 1,081,322	\$ 1,086,698

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.

Condensed Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

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

	Notes	Three months ended March 31, 2024	Three months ended March 31, 2023
Revenue	9	\$ 111,239	\$ 19,896
Operating expenses	9	79,693	8,689
Gross margin		31,546	11,207
General and administrative		487	1,790
Share-based compensation		1,128	1,720
Depreciation		9,564	4,924
Operating income		20,367	2,773
Finance costs and other	10	9,351	5,407
Realized loss (gain) on derivative contracts		8,140	(2,587)
Unrealized loss (gain) on derivative contracts		(5,551)	37,035
Gain on warrant liability revaluation	7	(485)	(7,250)
Income from equity investment	4	(1,097)	(773)
Transaction costs		5	80
Income (loss) before tax		10,004	(29,139)
Deferred income tax expense (recovery)		2,284	(7,662)
Net income (loss) and comprehensive income (loss)		\$ 7,720	\$ (21,477)
Net income (loss) and comprehensive income (loss) attributable to:			
Shareholders of the corporation		7,720	(21,477)
Non-controlling interest		-	-
Net income (loss) and comprehensive income (loss)		\$ 7,720	\$ (21,477)
Net income (loss) per share attributable to common shareholders:			
Basic	11	\$ 0.22	\$ (0.62)
Diluted	11	\$ 0.21	\$ (0.62)

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.

Consolidated Statement of Changes in Shareholders' Equity

(all tabular amounts expressed in thousands of Canadian dollars)

	Attributable to Shareholders of the Corporation					Non-controlling interest	Total Equity
	Notes	Share capital	Employee share reserve	Retained earnings (deficit)			
Balance, January 1, 2024		\$ 513,043	\$ 5,898	\$ (12,314)	\$ 6,500	\$ 513,127	
Net income		-	-	7,720	-	7,720	
Issuance of common shares	8	232	(232)	-	-	-	
Share-based compensation		-	821	-	-	821	
Balance at March 31, 2024		\$ 513,275	\$ 6,487	\$ (4,594)	\$ 6,500	\$ 521,668	
Balance, January 1, 2023		\$ 512,574	\$ 2,346	\$ 28,705	\$ 6,500	\$ 550,125	
Net loss		-	-	(21,477)	-	(21,477)	
Issuance of common shares	8	35	(35)	-	-	-	
Share-based compensation		-	1,655	-	-	1,655	
Balance at March 31, 2023		\$ 512,609	\$ 3,966	\$ 7,228	\$ 6,500	\$ 530,303	

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.

Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands of Canadian dollars)

	Notes	Three months ended March 31, 2024	Three months ended March 31, 2023
Cash provided by (used in):			
Operating activities			
Net income (loss) for the period		\$ 7,720	\$ (21,477)
Adjustments:			
Non-cash share-based compensation		821	1,655
Depreciation		9,564	4,924
Interest and financing charges	10	8,803	3,004
Accretion and other	10	2,014	1,723
Unrealized gain on investments	4, 10	(2,348)	-
Unrealized loss (gain) on foreign exchange	10	410	(18)
Unrealized loss (gain) on derivative contracts		(5,551)	37,035
Loss on warrant liability revaluation	7	(485)	(7,250)
Income from equity investment	4	(1,097)	(773)
Deferred income tax expense (recovery)		2,284	(7,662)
Changes in non-cash working capital	12(a)	18,323	288
<i>Net cash provided by operating activities</i>		40,458	11,449
Financing activities			
Advances (repayments) of bank debt	6	(27,749)	56,880
Payment of lease liabilities		(1,739)	(1,613)
Interest and financing charges paid		(8,810)	(3,033)
<i>Net cash provided by (used in) financing activities</i>		(38,298)	52,234
Investing activities			
Additions to property, plant and equipment	6	(5,772)	(81,619)
Proceeds from capital emission credit sales	3	14,600	23,275
Contributions to investments	4	(2,094)	-
Changes in non-cash working capital	12(b)	3,127	(15,779)
<i>Net cash provided by (used in) investing activities</i>		9,861	(74,123)
Increase (decrease) in cash and cash equivalents		12,021	(10,440)
Cash and cash equivalents at beginning of period		105	11,379
Cash and cash equivalents at end of period		\$ 12,126	\$ 939

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

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

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’s common shares trade on the Toronto Stock Exchange (“TSX”) under the symbol “LCFS”. The Corporation’s principal place of business is Suite 900, 222 – 3rd Ave SW, Calgary, Alberta, Canada, T2P 0B4.

The Corporation is focused on the production of low carbon fuels. During the fourth quarter of 2023, the Corporation commenced operations of its hydrogen-derived renewable diesel (“HDRD”) Complex, with a design capacity of 3,000 barrels per day. The Corporation manages the operations of the facility including the acquisition of feedstock, its production schedule and the marketing of renewable fuels. Through the production of renewable fuels, the Corporation generates operating emission credits, including the British Columbia low carbon fuel credits (“BC LCFS”) and the Canadian clean fuel regulations (“CFR”) credits, which are sold to various counterparties.

The Corporation has entered into various agreements with Tidewater Midstream including take-or-pay processing and storage agreements, renewable product sales agreements, shared services agreements and various marketing arrangements. Prior to the commencement of operations of the HDRD Complex, the Corporation derived the majority of its revenue from Tidewater Midstream. With the commencement of operations at the HDRD Complex, the Corporation offers its products to a broader customer base, however, Tidewater Midstream remains a significant revenue source to the Corporation.

The Corporation has 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”).

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements are in compliance with IAS 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board. The accounting policies applied are in accordance with International Financial Reporting Standards (“IFRS”) and are consistent with the Corporation’s consolidated financial statements as at and for the year ended December 31, 2023, other than those adopted below. These condensed interim consolidated financial statements as at and for the three month period ended March 31, 2024 do not include all disclosures required for the preparation of annual consolidated financial statements and should be read in conjunction with the Corporation’s consolidated financial statements as at and for the year ended December 31, 2023.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 8, 2024.

Accounting Policies

Investments

Equity investments in entities which the Corporation does not control or have significant influence over are accounted for at fair value through profit and loss and are remeasured each period with gains and losses recognized in net income. Dividends received on investments are recognized in the statement of net income and comprehensive income.

Tidewater Renewables Ltd.

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3. INVENTORY AND EMISSION CREDITS

The following summarizes the Corporation's inventory:

	March 31, 2024	December 31, 2023
Renewable feedstocks	\$ 18,400	\$ 27,014
Renewable refined product	917	917
Operating emissions credits	20,539	15,599
Capital emissions credits	439	277
	\$ 40,295	\$ 43,807

Capital emissions credits are carried at fair value less cost to sell based on market prices or forward contracted prices. During the three months ended March 31, 2024, the Corporation generated \$20.7 million (March 31, 2023 - \$2.0 million) of capital emissions credits for achieving construction and engineering milestones on its HDRD Complex and its proposed Sustainable Aviation Fuel ("SAF") Facility. During the three months ended March 31, 2024, the Corporation sold capital emissions credits for proceeds of \$14.6 million (March 31, 2023 - \$23.3 million) and utilized \$5.9 million (March 31, 2023 - \$NIL) of capital emissions credits to settle the Corporation's emissions liability.

At March 31, 2024, the Corporation had commitments to sell \$15.7 million of the above operating emissions credits for proceeds of \$19.4 million in the second quarter of 2024 (December 31, 2024 - \$NIL). Deferred revenues of \$8.9 million were recognized at March 31, 2024 related to these commitments.

4. INVESTMENTS

The following table summarizes the Corporation's investments:

	March 31, 2024	December 31, 2023
Investment in RCC ⁽¹⁾	\$ 31,998	\$ 30,901
Investments at fair value	4,542	100
	\$ 36,540	\$ 31,001

(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.

On January 2, 2024, in a related party transaction, the Corporation purchased an interest in the NGIF Cleantech Ventures Fund from Tidewater Midstream in exchange for \$1.4 million. The NGIF Cleantech Ventures Fund invests in a portfolio of start-up renewable and low carbon energy companies. A former member of the Corporation's board of directors is an officer of NGIF Cleantech Ventures Fund. This board member resignation was announced by the Corporation on April 22, 2024. During the three months ended March 31, 2024, the Corporation made additional contributions of \$0.7 million and recognized a non-cash revaluation gain of \$2.3 million when adjusting the investment to its fair value.

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5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

	Plant and infrastructure	Assets under construction	Total
COST			
Balance, January 1, 2023	\$ 658,027	\$ 241,191	\$ 899,218
Additions	31,787	173,581	205,368
Government grants	-	(2,560)	(2,560)
Decommissioning asset	2	-	2
Capital emission credits awarded	(253)	(82,440)	(82,693)
Completed projects	308,885	(308,885)	-
December 31, 2023	\$ 998,448	\$ 20,887	\$ 1,019,335
Additions	3,865	1,907	5,772
Capital emission credits awarded (note 3)	(18,300)	(2,350)	(20,650)
Completed projects	5,330	(5,330)	-
March 31, 2024	\$ 989,343	\$ 15,114	\$ 1,004,457
ACCUMULATED DEPRECIATION			
Balance, January 1, 2023	\$ 19,541	\$ -	\$ 19,541
Depreciation	20,298	-	20,298
December 31, 2023	\$ 39,839	\$ -	\$ 39,839
Depreciation	8,183	-	8,183
March 31, 2024	\$ 48,022	\$ -	\$ 48,022
NET BOOK VALUE			
December 31, 2023	\$ 958,609	\$ 20,887	\$ 979,496
March 31, 2024	\$ 941,321	\$ 15,114	\$ 956,435

During the year ended December 31, 2023, the Corporation received \$2.6 million of grant funding for achieving engineering design milestones on its proposed renewable natural gas facility. Assets under construction includes costs incurred on the Corporation's proposed sustainable aviation fuel facility and renewable natural gas facility.

6. BANK DEBT

The following table summarizes the Corporation's bank debt:

	March 31, 2024	December 31, 2023
Senior Credit Facility	\$ 144,000	\$ 171,749
Financing costs	(798)	(1,275)
Total bank debt	\$ 143,202	\$ 170,474

The Corporation has a revolving credit facility ("Senior Credit Facility") with a syndicate of banks. Total aggregate availability under the Corporation's Senior Credit Facility is \$175.0 million and it 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.

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Tidewater Renewables is required to maintain certain quarterly financial covenants on an annualized basis. The annualization basis is calculated on year-to-date 2024 results. The Corporation received a waiver for its December 31, 2023, quarterly financial covenants. The calculations for each of these ratios are based on specific definitions in the agreements governing the Senior Credit Facility and Term Debt Facility (note 7), are not in accordance with GAAP, and cannot be easily calculated by referring to the Corporation's financial statements. The financial covenants are as follows:

	Ratio	March 31, 2024
Consolidated debt ⁽¹⁾ to adjusted EBITDA (annualized)	Max 4.00:1.00	3.34
Consolidated first lien ⁽²⁾ senior debt to adjusted EBITDA (annualized)	Max 3.00:1.00	1.44
Adjusted EBITDA to interest coverage (annualized)	Min 2.50:1.00	2.62

(1) Consolidated debt includes the Senior Credit Facility and the Term Debt Facility (note 7).

(2) First lien senior debt includes the Senior Credit Facility but excludes the Term Debt Facility (note 7).

At March 31, 2024, Tidewater Renewables had \$8.1 million (December 31, 2023 - \$8.1 million) of letters of credit outstanding, which operate under a separate facility.

7. TERM DEBT AND WARRANT LIABILITY

The following table summarizes the Corporation's term debt:

	March 31, 2024	December 31, 2023
Senior Secured Second Lien Credit Facility	\$ 175,000	\$ 175,000
Discount on debt ⁽¹⁾	(16,735)	(17,956)
Total term debt	\$ 158,265	\$ 157,044

(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 "Term Debt Facility") with a face value of \$150.0 million (the "Original Principal Amount"), through an Alberta based pension fund (the "Term Lender"). The Term Debt Facility was issued along with 3.4 million warrants, each of which entitles the holder to purchase one common share of Tidewater Renewables for a term of five years. On May 10, 2023, the Term Debt Facility was amended and an additional \$25.0 million was advanced (the "Additional Debt Capacity").

The \$25.0 million of Additional Debt Capacity matures on August 18, 2024, and will be extended to a maximum of August 18, 2025, in the event of an extension of the Senior Credit Facility. The \$25.0 million of Additional Debt Capacity is subject to variable quarterly repayments based on a portion of the Corporation's adjusted cash flows. The calculation of these adjusted cash flows is based on specific definitions in the agreements governing the Term Debt Facility, are not in accordance with GAAP, and cannot be easily calculated by referring to the Corporation's financial statements. The Additional Debt Capacity can be repaid at the Corporation's option without penalty.

The Term Debt Facility is subordinated to and is subject to the same financial covenants as Tidewater Renewables' Senior Credit Facility, as described in Note 6. The Term Debt Facility is due on October 24, 2027, with interest paid semi-annually on the original principal amount and monthly on the additional debt capacity. The Term Debt Facility bears interest at 6.7% on the Original Principal Amount and at 9.5% for any amounts outstanding under the Additional Debt Capacity.

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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 March 31, 2024:

	Number of warrants outstanding (000s)	Fair value
Balance, December 31, 2022	3,375	\$ 12,445
Gain on warrant liability revaluation	-	(9,250)
Balance, December 31, 2023	3,375	\$ 3,195
Gain on warrant liability revaluation	-	(485)
Balance, March 31, 2024	3,375	\$ 2,710

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 the Term Lender has requested, the Corporation will assist the Term Lender in the sale of the common shares and is obligated to pay certain market slippage costs of up to 15% and related sales costs.

The Term Lender's warrant exercise price may be reduced by \$2.00, on a pro rata basis, if the Term Debt 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 Term Lender 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:

	March 31, 2024	December 31, 2023
Exercise price per share (\$)	\$ 14.84	\$ 14.84
Common share price (\$)	\$ 7.63	\$ 8.07
Volatility factor of expected market price (%)	35.59%	34.96%
Risk-free interest rate (%)	4.00%	3.17%
Remaining life in years	3.57	3.81
Expected annual dividend per share (%)	0.00%	0.00%
Fair value per warrant (\$)	\$ 0.80	\$ 0.95

A 10% change in the Corporation's share price would have an after-tax impact on net income of \$0.9 million for the three months ended March 31, 2024 (three months ended March 31, 2023 - \$1.0 million).

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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

8. SHARE CAPITAL

The following table summarizes the Corporation's common shares outstanding:

	March 31, 2024		December 31, 2023	
	Number of Shares (000s)	Amount	Number of Shares (000s)	Amount
Balance, beginning of period	34,763	\$ 513,043	34,719	\$ 512,574
Issue of common shares – long term incentive plan	56	232	44	469
Balance, end of period	34,819	\$ 513,275	34,763	\$ 513,043

9. REVENUE AND OPERATING EXPENSES

For the three months ended March 31, 2024 and 2023, 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, renewable natural gas and renewable marketing. 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.

Three months ended March 31, 2024	Renewable fuels	Renewable natural gas	Renewable marketing	Total
Revenue (before eliminations)	\$ 107,666	\$ 3,573	\$ 731	\$ 111,970
Intercompany eliminations	-	-	(731)	(731)
Revenue from external customers	\$ 107,666	\$ 3,573	\$ -	\$ 111,239
Operating expenses (before eliminations)	\$ 79,059	\$ 860	\$ 505	\$ 80,424
Intercompany eliminations	(731)	-	-	(731)
Operating expenses from external vendors	\$ 78,328	\$ 860	\$ 505	\$ 79,693
Gross Margin	\$ 29,338	\$ 2,713	\$ (505)	\$ 31,546

Three months ended March 31, 2023	Renewable fuels	Renewable natural gas	Renewable marketing	Total
Revenue (before eliminations)	\$ 15,944	\$ 3,332	\$ 1,307	\$ 20,583
Intercompany eliminations	-	-	(687)	(687)
Revenue from external customers	\$ 15,944	\$ 3,332	\$ 620	\$ 19,896
Operating expenses (before eliminations)	\$ 6,906	\$ 1,309	\$ 1,161	\$ 9,376
Intercompany eliminations	(687)	-	-	(687)
Operating expenses from external vendors	\$ 6,219	\$ 1,309	\$ 1,161	\$ 8,689
Gross Margin	\$ 9,725	\$ 2,023	\$ (541)	\$ 11,207

Tidewater Renewables Ltd.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2024 and 2023

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

10. FINANCE COSTS AND OTHER

Finance costs and other is comprised of the following:

	For the three months ended March 31,	
	2024	2023
Interest on bank debt and term debt	\$ 8,803	\$ 5,004
Interest capitalized ⁽¹⁾	-	(2,000)
Total interest expense	8,803	3,004
Realized foreign exchange gain	472	698
Unrealized foreign exchange loss (gain) ⁽²⁾	410	(18)
Total finance costs and before accretion and other	\$ 9,685	\$ 3,684
Unwinding of discount on decommissioning obligations	27	25
Unwinding of discount on long-term debt	1,705	1,364
Unwinding of discount on lease liabilities	282	334
Accretion	2,014	1,723
Unrealized gain on investments (note 4)	(2,348)	-
Total finance costs and other	\$ 9,351	\$ 5,407

(1) For the three months ended March 31, 2023, interest was capitalized at an annualized weighted average capitalization rate of approximately 7.9% on funds borrowed.

(2) Relates to translation of USD denominated lease liabilities.

11. NET INCOME PER SHARE

	March 31, 2024			March 31, 2023		
	Net income	Common shares (000s)	Net income per share	Net loss	Common shares (000s)	Net loss per share
Net income (loss) attributable to shareholders - basic	\$ 7,720	34,777	\$ 0.22	\$ (21,477)	34,720	\$ (0.62)
Dilutive effect of share awards	-	1,231	(0.01)	-	-	-
Dilutive effect of warrants	-	-	-	-	-	-
Net income (loss) attributable to shareholders - diluted	\$ 7,720	36,008	\$ 0.21	\$ (21,477)	34,720	\$ (0.62)

For the three months ended March 31, 2024, 0.5 million share awards (for the three months ended March 31, 2023 – 1.0 million) and 3.4 million of warrants were anti-dilutive (for the three months ended March 31, 2023 – 3.4 million).

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12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	March 31,	
	2024	2023
Accounts receivable	\$ (7,924)	\$ (1,905)
Prepaid expenses and other	2,807	(1,794)
Inventory	3,674	(488)
Deferred revenue	8,858	-
Accounts payable, accrued liabilities and provisions	10,908	4,475
Change in non-cash working capital from operating activities	\$ 18,323	\$ 288

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

	March 31,	
	2024	2023
Accounts payable, accrued liabilities and provisions	\$ 3,127	\$ (15,779)
Change in non-cash working capital from investing activities	\$ 3,127	\$ (15,779)

c) Interest paid

During the three months ended March 31, 2024, total interest and finance charges paid, prior to capitalization, was \$8.8 million (three months ended March 31, 2023 - \$3.0 million).

13. 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.

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.

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- 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 warrant liability and derivative contracts, which includes exchange-cleared commodity derivatives and over-the-counter commodity derivatives that are traded in observable markets.

At March 31, 2024, the fair value of cash and cash equivalents, accounts receivable, accounts 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 March 31, 2024 and December 31, 2023 is as follows:

		March 31, 2024		December 31, 2023
Cash and cash equivalents	\$	12,126	\$	105
Accounts receivable		14,935		7,011
Derivative contracts – current		205		304
	\$	27,266	\$	7,420

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 March 31, 2024 relate to contractual agreements. During the three months ended March 31, 2024, approximately 95% of the Corporation's revenues were generated from three customers, including \$41.7 million from its controlling shareholder Tidewater Midstream

During the three months ended March 31, 2024, three customers accounted for approximately, 37%, 35% and 22% of the Corporation's revenues (three months ended March 31, 2023 – one customer contributed 91% of revenues). At March 31, 2024, the Corporation did not have any receivables over 90 days. The Corporation believes the financial risks associated with Tidewater Midstream and the other two investment-grade entities are minimal.

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 March 31, 2024, lifetime expected credit losses for accounts receivable outstanding were \$0.2 million (December 31, 2023 - \$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.

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c) Liquidity risk

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

Tidewater Renewables' Senior Credit Facility (note 6) and the Additional Debt Capacity under the Term Debt Facility (note 7) have a maturity date of August 18, 2024. The Additional Debt Capacity will be extended to a maximum of August 18, 2025, in the event of an extension of the Senior Credit Facility. In the event, that the Senior Credit Facility is not extended alternative sources of funding will be necessary. There can be no assurances that Tidewater Renewables' Senior Credit Facility will be extended beyond the August 18, 2024, maturity date.

Uncertainties due to economic factors, or unanticipated operational issues with 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 believes that it has access to sufficient capital through its working capital, contracted take-or-pay cash flows, and external sources (bank credit markets and equity financing, if required) to meet its obligations and financial commitments. 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 March 31, 2024 and December 31, 2023:

	March 31, 2024		December 31, 2023	
	Less than one year	Greater than one year	Less than one year	Greater than one year
Accounts payable and accrued liabilities ⁽¹⁾	\$ 69,926	\$ -	\$ 43,279	\$ -
Warrant liability	2,710	-	3,195	-
Derivative contracts	26,367	14,118	27,299	18,836
Lease liabilities ⁽²⁾	6,995	11,556	6,832	13,009
Bank debt ⁽³⁾	144,000	-	171,749	-
Term debt ⁽³⁾	25,000	150,000	25,000	150,000
	\$ 274,998	\$ 175,674	\$ 277,354	\$ 181,845

(1) Amounts at December 31, 2023 excludes provisions of \$18.5 million settled in the first quarter of 2024.

(2) Amounts represent the expected undiscounted cash payments related to leases.

(3) 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.

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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 March 31, 2024, the Corporation had variable rate bank debt (note 6) totaling \$144.0 million (March 31, 2023 – \$129.5 million) and therefore a 1% change in the interest rate on bank debt would have had an after-tax impact of \$0.3 million on net income for the for the three months ended March 31, 2024 (three months ended March 31, 2023 - \$0.2 million). The Corporation's Term debt's interest rate has certain adjustment based on the Canadian CPI rate (note 7). Increasing the assumed inflation rate to the capped amount would have a nominal after-tax impact for the three months ended March 31, 2024.

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 March 31, 2024, net working capital liabilities and derivative contract balances denominated in USD were \$38.5 million (March 31, 2023 - \$28.3 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 \$2.0 million for the three months ended March 31, 2024 (for the three months ended March 31, 2023 - \$1.0 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 may use derivatives to protect a portion of 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.

The Corporation enters into Chicago Board of Trade soybean oil and New York Mercantile Exchange NY Harbor ULSD forward financial and future derivative contracts to reduce the risk of price volatility related to anticipated purchases of feedstock raw materials and to protect cash margins from potentially adverse effects of price volatility on renewable diesel sales where prices are set at a future date. All of the Corporation's derivative contracts are recorded at fair value. 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 \$10.5 million for the three months ended March 31, 2024 (for the three months ended March 31, 2023 - \$21.0 million).

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14. RELATED PARTY TRANSACTIONS

The Corporation has entered into certain agreements and transactions with Tidewater Midstream, which are discussed in Note 22 of the Corporation's consolidated financial statements as at and for the year ended December 31, 2023. In addition to the transaction described in Note 4, other transactions and new agreements with Tidewater Midstream are disclosed below:

a) Related Party Transactions

Related party transactions included in the consolidated statements of net income (loss) and comprehensive income (loss) for the three months ended March 31, 2024 and 2023, are summarized in the following table:

	Notes	Three months ended March 31,	
		2024	2023
Revenue from take-or-pay agreements		\$ 11,957	\$ 12,618
Revenue from the sale of renewable fuels		\$ 29,699	\$ 5,680
Purchases of blending fuels	(i)	\$ 27,756	\$ -
Other operating expenses	(ii)	\$ 8,153	\$ 5,404
G&A Expenses under the shared services agreement		\$ 500	\$ 826
Realized loss on derivative contracts		\$ 811	\$ 64
Unrealized (gain) on derivative contracts		\$ (566)	\$ 2,757

Related party transactions included in the consolidated statement of cash flow for the three months ended March 31, 2024 and 2023, are summarized in the following table:

	Notes	Three months ended March 31,	
		2024	2023
Lease payments		\$ (31)	\$ (31)
Capital emissions credit sales		\$ 12,250	\$ 4,600
Additions to property, plant and equipment	(ii)	\$ (136)	\$ -

- (i) Tidewater Renewables purchases conventional refined product from Tidewater Midstream to blend with its renewable refined products and sell to external customers. These purchases are made under short-term agreements at market rates.
- (ii) Tidewater Midstream operates the Corporation's HDRD Complex and other facilities, incurring both operating and capital expenditures. The Corporation pays an allocable share of the actual costs incurred by Tidewater Midstream in providing such services, plus 5% on certain charges. During the three months ended March 31, 2024, the 5% mark-up resulted in \$0.3 million (2023 - \$NIL) and \$0.1 million (2023 - \$NIL) of operating expenses and additions to property, plant and equipment, respectively. The Company does not currently have a written agreement in place for the 5% mark-up and is in the process of negotiating the terms and conditions.

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b) Related Party Balances

The related party balances included in the consolidated statement of financial position as March 31, 2024 and December 31, 2023, are summarized in the following table:

	March 31, 2024	December 31, 2023
Accounts receivable	\$ 4,526	\$ 5,522
Prepaid expenses and other	\$ -	\$ 3,900
Accounts payables, accrued liabilities and provisions	\$ (32,072)	\$ (6,144)
Derivative contracts	\$ (5,422)	\$ (5,988)
Lease liabilities	\$ (417)	\$ (442)