TIDEWATER

Renewables Ltd.

Condensed Interim Consolidated Financial Statements

For the three and six month periods ended June 30, 2024

Tidewater Renewables Ltd.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited, thousands of Canadian dollars)

As at	Notes		June 30, 2024		December 31, 2023
Assets					
Current					
Cash and cash equivalents		$	**1,971**	$	105
Accounts receivable			**19,788**		7,011
Derivative contracts			**118**		304
Inventory and emission credits	3		**52,974**		43,807
Prepaid expenses and other			**5,915**		8,305
Total current assets			**80,766**		59,532
Investments	4		**36,904**		31,001
Right-of-use assets			**13,906**		16,669
Property, plant and equipment	5		**942,305**		979,496
Total assets		$	**1,073,881**	$	1,086,698
Liabilities					
Current					
Accounts payable, accrued liabilities and provisions		$	**51,818**	$	61,779
Deferred revenues	3		**9,530**		-
Derivative contracts			**32,175**		27,299
Bank debt	6		**142,808**		170,474
Term debt	7		**24,500**		24,500
Lease liabilities			**6,860**		6,646
Warrant liability	7		**2,250**		3,195
Total current liabilities			**269,941**		293,893
Term debt	7		**134,882**		132,544
Derivative contracts			**13,458**		18,836
Lease liabilities			**8,833**		11,433
Provisions			**1,302**		1,247
Deferred tax liabilities			**119,459**		115,618
Total liabilities			**547,875**		573,571
Equity					
Non-controlling interest			**6,500**		6,500
Shareholders’ equity					
Share capital	8(a)		**513,808**		513,043
Employee share reserve			**5,357**		5,898
Retained earnings (deficit)			**341**		(12,314)
Total shareholders’ equity			**519,506**		506,627
Total shareholders’ equity and non-controlling interest			**526,006**		513,127
Total liabilities and equity		$	**1,073,881**	$	1,086,698

Going concern (note 2)

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

	Notes	Three months ended June 30, **2024**	Three months ended June 30, 2023	Six months ended June 30, **2024**	Six months ended June 30, 2023
Revenue	9	**$ 147,238**	$ 13,163	**$ 258,477**	$ 33,059
Operating expenses	9	**103,471**	6,633	**183,164**	15,322
Gross margin		**43,767**	6,530	**75,313**	17,737
General and administrative	11	**4,585**	1,853	**5,072**	3,643
Share-based compensation		**(1,241)**	1,635	**(113)**	3,355
Depreciation		**9,334**	5,264	**18,898**	10,188
Operating income (loss)		**31,089**	(2,222)	**51,456**	551
Finance costs and other	10	**10,304**	4,542	**19,655**	9,949
Realized loss (gain) on derivative contracts		**9,883**	1,184	**18,023**	(1,403)
Unrealized loss (gain) on derivative contracts		**5,234**	(9,195)	**(317)**	27,840
Gain on warrant liability revaluation	7	**(460)**	(720)	**(945)**	(7,970)
Income from equity investments		**(364)**	(1,813)	**(1,461)**	(2,586)
Transaction costs		**-**	21	**5**	101
Income (loss) before income tax		**6,492**	3,759	**16,496**	(25,380)
Deferred income tax expense (recovery)		**1,557**	1,105	**3,841**	(6,557)
Net income (loss) and comprehensive income (loss)		**$ 4,935**	$ 2,654	**$ 12,655**	$ (18,823)
Net income (loss) and comprehensive income (loss) attributable to:					
Shareholders		**4,935**	2,654	**12,655**	(18,823)
Non-controlling interest		**-**	-	**-**	-
Net income (loss) and comprehensive income (loss)		**$ 4,935**	$ 2,654	**$ 12,655**	$ (18,823)
Net income (loss) per share attributable to shareholders:					
Basic	8(b)	**$ 0.14**	$ 0.08	**$ 0.36**	$ (0.54)
Diluted	8(b)	**$ 0.14**	$ 0.07	**$ 0.35**	$ (0.54)

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited, thousands of Canadian dollars)

	Notes	Share capital	Employee share reserve	Retained earnings (deficit)	Non-controlling interest	Total Equity
		Attributable to Shareholders of the Corporation				
Balance, January 1, 2024		$ 513,043	$ 5,898	$ (12,314)	$ 6,500	$ 513,127
Net income		-	-	12,655	-	12,655
Issuance of common shares	8(a)	765	(765)	-	-	-
Share-based compensation		-	224	-	-	224
Balance, June 30, 2024		**$ 513,808**	**$ 5,357**	**$ 341**	**$ 6,500**	**$ 526,006**
Balance, January 1, 2023		$ 512,574	$ 2,346	$ 28,705	$ 6,500	$ 550,125
Net loss		-	-	(18,823)	-	(18,823)
Issuance of common shares		57	(57)	-	-	-
Share-based compensation		-	2,900	-	-	2,900
Balance, June 30, 2023		$ 512,631	$ 5,189	$ 9,882	$ 6,500	$ 534,202

See the accompanying notes to the condensed interim consolidated financial statements

Tidewater Renewables Ltd.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited, thousands of Canadian dollars)

	Notes	Three months ended June 30, **2024**	Three months ended June 30, 2023	Six months ended June 30, **2024**	Six months ended June 30, 2023
Cash provided by (used in):					
Operating activities					
Net income (loss)		**$ 4,935**	$ 2,654	**$ 12,655**	$ (18,823)
Adjustments:					
Non-cash share-based compensation		**(597)**	1,245	**224**	2,900
Depreciation		**9,334**	5,264	**18,898**	10,188
Interest and finance charges	10	**7,842**	3,564	**16,645**	6,568
Accretion and other	10	**1,921**	1,994	**3,935**	3,717
Unrealized gain on investments	4, 10	**-**	-	**(2,348)**	-
Unrealized loss (gain) on foreign exchange	10	**162**	(409)	**572**	(427)
Unrealized loss (gain) on derivative contracts		**5,234**	(9,195)	**(317)**	27,840
Gain on warrant liability revaluation	7	**(460)**	(720)	**(945)**	(7,970)
Income from equity investment		**(364)**	(1,813)	**(1,461)**	(2,586)
Deferred income tax expense (recovery)		**1,557**	1,105	**3,841**	(6,557)
Changes in non-cash operating working capital		**2,930**	(11,037)	**21,253**	(10,749)
Net cash provided by (used in) operating activities		**32,494**	(7,348)	**72,952**	4,101
Financing activities					
(Repayment) advances of bank debt		**(643)**	10,509	**(28,392)**	67,389
Advances of term debt		**-**	25,000	**-**	25,000
Payment of lease liabilities		**(1,763)**	(1,603)	**(3,502)**	(3,216)
Interest and financing charges paid		**(7,835)**	(4,786)	**(16,645)**	(7,819)
Changes in non-cash financing working capital		**3,298**	-	**3,298**	-
Net cash (used in) provided by financing activities		**(6,943)**	29,120	**(45,241)**	81,354
Investing activities					
Expenditures on property, plant and equipment	5	**(8,556)**	(55,831)	**(14,328)**	(137,450)
Proceeds from capital emission credit sales	3	**18,963**	78,678	**33,563**	101,953
Receipt of government grant	5	**1,758**	-	**1,758**	-
Contributions to investments	4	**-**	-	**(2,094)**	-
Changes in non-cash investing working capital		**(47,871)**	(23,646)	**(44,744)**	(39,425)
Net cash used in investing activities		**(35,706)**	(799)	**(25,845)**	(74,922)
(Decrease) increase in cash and cash equivalents		**(10,155)**	20,973	**1,866**	10,533
Cash and cash equivalents, beginning of period		**12,126**	939	**105**	11,379
Cash and cash equivalents, end of period		**$ 1,971**	$ 21,912	**$ 1,971**	$ 21,912

See the accompanying notes to the condensed interim 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'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

a) Statement of compliance

These condensed interim consolidated financial statements are in compliance with IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. The accounting policies applied are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with the Corporation's consolidated financial statements as at and for the year ended December 31, 2023, other than those adopted below. These condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 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 August 14, 2024.

b) Statement of preparation

Going concern uncertainty

The Corporation's condensed interim consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

On June 30, 2024, the Corporation had negative working capital of $189.2 million, including $167.3 million of Senior Credit Facility and Additional Debt Capacity due on August 18, 2024. On June 30, 2024, the Corporation had total cash and cash equivalents of $2.0 million and cash flow provided by operating activities of $73.0 million for the six months ended June 30, 2024. The Corporation currently will have insufficient cash to fund its operations for the next 12 months if the Corporation's sales decline and/or the Senior Credit Facility and Additional Debt Facility under the Term Debt Facility mature, without extension or refinancing.

In assessing whether the going concern assumption was appropriate, management considered all relevant information available about the future including, but not limited to, all relevant information available about the twelve-month period following June 30, 2024.

Under the BC LCFS and CFR, the Corporation is issued emission credits for supplying or offering for sale fuels with a carbon intensity below the targets in the relevant jurisdiction ("operating emission credits") or for achieving certain capital project investment milestones under an agreement with the government of British Columbia ("capital emission credits"), (collectively, "emission credits").

During the six months ending June 30, 2024, the Corporation contracted and sold BC LCFS capital and operating emission credits at an average price of approximately $450 per emission credit to various customers. Tidewater Renewables had intended to forward sell emission credits to de-risk and manage liquidity of the business, however, towards the end of the second quarter of 2024 the Corporation was unable to secure forward sales agreements for the BC LCFS capital and operating emission credits expected to be generated during the third quarter of 2024. Management attributes the inability to contract near-term BC LCFS capital and operating emission credit sales to a substantial increase in the volume of subsidized US renewable diesel physically moving out of the oversupplied US renewable fuel market and into the higher value BC market. This increased supply of US renewable diesel being imported into Canada has reduced the demand for BC LCFS capital and operating emission credits. This is a result of overlapping US and Canadian low carbon fuel policies which allow US renewable diesel producers to take advantage of US and state compliance credits, which are generated at the point of production, then import their volumes to Canada and generate BC LCFS emission credits, at the point of sale, respectively. The Corporation relies heavily on the revenue generated from sale of BC LCFS capital and operating emissions credits.

These factors impact the Corporation's ability to repay outstanding debt and indicate the existence of material uncertainties that may cast significant doubt about the Corporation's ability to continue as a going concern. These condensed interim consolidated financial statements do not reflect adjustments in the carrying value of assets and liabilities, revenue or expenses, nor the statement of financial position classification that could be necessary if the going concern assumption was not valid. Such adjustments could be material.

To preserve adequate short-term liquidity, management has been evaluating alternative liquidity sources for the Corporation, including a transaction where Tidewater Midstream would acquire certain assets from Tidewater Renewables in exchange for up front proceeds and near-term BC LCFS credit purchases (the "Proposed Transaction"), while the sector awaits a longer-term solution. In connection with the Proposed Transaction, the Corporation's Board of Directors established an independent special committee (the "Renewables Special Committee") to evaluate the Proposed Transaction and negotiate the terms thereof with the independent special committee established by the Board of Directors of Tidewater Midstream (the "Midstream Special Committee"). The Renewables Special Committee has retained a financial advisor and legal counsel in connection with the Proposed Transaction.

The completion of the Proposed Transaction is contingent upon securing all requisite regulatory consents and approvals, Tidewater Renewables obtaining approval from its capital providers and Tidewater Midstream obtaining financing from its capital provider, and the completion of final documentation. Tidewater Renewables is exempt from the valuation and majority of the minority approval requirements stipulated in Section 5.4 and 5.6 of Multilateral Instrument 61-101, Protection of Minority Security Holders in Special Transactions ("MI 61-101"), due to the "financial hardship" exemption provided in Section 5.5(g) and 5.7(1)(e) of MI 61-101.

The proposed assets to be divested include:

- the 100% owned canola co-processing infrastructure, fluid catalytic cracking co-processing infrastructure and steam methane reformer;
- the Corporation's working interests in various Prince George Refinery assets including tankage, rack and truck infrastructure, water treatment and electrical utilities; and
- a 100% owned natural gas storage facility co-located at Tidewater Midstream's Brazeau River Complex (collectively the "Divestiture Assets").

The Divestiture Assets generated annual revenue of $78.0 million for the year ended December 31, 2023, and revenue of $45.0 million for the six months ended June 30, 2024.

The estimated proceeds from this related party transaction will consist of a cash payment by Tidewater Midstream of $129.7 million, and a minimum of $80.7 million of cash from the sale of BC LCFS emission credits as they are generated over the next nine months, if the HDRD Complex continues to operate at over 90% utilization. The net estimated proceeds will be used to repay amounts outstanding on the Senior Credit facility, which will provide an immediate improvement to Tidewater Renewables' leverage profile and a reduction to cash interest costs.

The Corporation has also engaged with the Government of British Columbia to discuss potential regulatory changes to the BC LCFS regulation in effort to improve liquidity and pricing stability for BC LCFS capital and operating emission credits.

While further debt refinancing is anticipated upon the close of the Proposed Transaction, there are no assurances that the Proposed Transaction will close or such refinancing will be available.

On August 14, 2024, the Corporation entered into a definitive purchase and sale agreement for the sale its used cooking oil feedstock assets for $10.5 million, subject to pre and post-closing adjustments. The sale is subject to certain closing conditions and is expected to close in September, 2024. Net proceeds of this transaction will be used to repay outstanding debt balances.

While the Corporation has been successful in obtaining financing to date, there can be no assurance that the Corporation will secure financing on terms favourable to the Corporation, or at all. Should the Corporation be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Corporation's assets could be subject to material adjustments and other adjustments may be necessary to these condensed interim consolidated financial statements should such events impair the Corporation's ability to continue as a going concern.

c) Management judgments and estimation uncertainty

The Corporation operates in an industry subject to various risks and uncertainties that could impact the pricing of emissions credits, including but not limited to, changes in provincial and federal government regulations in Canada, market volatility, and technological advancements. The fair value of emissions credits is influenced by these factors, and their impact on our financial statements is subject to significant judgment and estimation. We regularly monitor and assess these risks, considering both internal and external factors, to ensure the appropriateness of our estimates and disclosures.

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 condensed interim consolidated financial statements are consistent with the Corporation's consolidated financial statements as at and for the year ended December 31, 2023, except as outlined below:
Revenue recognition

The Corporation recognizes revenue from the sale of emissions credits when persuasive evidence of an arrangement exists, a performance obligation has been met, the price is fixed or determinable, and collectability is reasonably assured. The fair value of emissions credits is determined based on market prices that the Corporation determines through offering emissions credits for sale, and participating in emissions credits auctions, as there is no reputable market data sources for the current fair value of emissions credits. The determination of fair value involves significant judgment and estimation due to the inherent variability in emissions credit pricing influenced by market conditions and regulatory changes.

Valuation of emissions credits

The Corporation values capital emissions credits using a market-based approach and operating emissions credits using a relative fair value approach. The fair value is determined by referencing market prices obtained through offering emissions credits for sale, and participating in emissions credits auctions, as there is no reputable market data. The Corporation periodically assess the carrying value of our emissions credits for impairment. The recoverable amount is determined based on the lower of the cost or net realizable value. The net realizable value is contracted values or estimated market prices.

Impairment of property, plant and equipment

Management applies judgment in assessing the existence of indicators of impairment and reversal of impairment based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as the greater of its fair value less costs of disposal and its value in use. Key assumptions and estimates used in the impairment assessment include projected cash flows, discount rates, and the expected future demand for renewable diesel and emissions credits. Any impairment loss recognized reflects management's best estimate of the reduction in value due to changes in market conditions or project-specific circumstances.

d) 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.

(Tabular amounts stated in thousands of Canadian dollars, except as noted)

3. INVENTORY AND EMISSION CREDITS

The following table summarizes the Corporation's inventory and emission credits:

		June 30, 2024		December 31, 2023
Renewable feedstocks	**$**	**26,150**	$	27,014
Renewable refined products		**1,216**		917
Operating emission credits		**25,169**		15,599
Capital emission credits		**439**		277
Total inventory	**$**	**52,974**	$	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 and six months ended June 30, 2024, the Corporation generated $12.9 million and $33.6 million (June 30, 2023 - $76.6 million and $78.5 million), respectively, of capital emissions credits for achieving construction, engineering and operational milestones on its HDRD Complex and its proposed Sustainable Aviation Fuel ("SAF") Facility. During the three and six months ended June 30, 2024, the Corporation sold capital emissions credits for proceeds of $19.0 million and $33.6 million (June 30, 2023 - $78.7 million and $102.0 million), respectively.

At June 30, 2024, the Corporation had commitments to sell $18.1 million of the above operating emissions credits for proceeds of $29.3 million in the third quarter of 2024 (December 31, 2023 - $NIL). Deferred revenues of $9.5 million were recognized at June 30, 2024 related to these commitments.

4. INVESTMENTS

The following table summarizes the Corporation's investments:

		June 30, 2024		December 31, 2023
Investment in RCC [(1)]	**$**	**32,362**	$	30,901
Investments at fair value		**4,542**		100
Total investments	**$**	**36,904**	$	31,001

(1) Accounted for by the equity method.

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 members resignation was announced by the Corporation on April 22, 2024. During the six months ended June 30, 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.

(Tabular amounts stated in thousands of Canadian dollars, except as noted)

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
Receipt of government grant		-		(2,560)		(2,560)
Decommissioning asset		2		-		2
Capital emission credits awarded		(253)		(82,440)		(82,693)
Completed projects		308,885		(308,885)		-
Balance, December 31, 2023	$	998,448	$	20,887	$	1,019,335
Additions		-		14,328		14,328
Receipt of government grant		-		(1,758)		(1,758)
Capital emission credits awarded (note 3)		(28,885)		(4,740)		(33,625)
Completed projects		16,746		(16,746)		-
Balance, June 30, 2024	$	986,309	$	11,971	$	998,280
Accumulated Depreciation						
Balance, January 1, 2023	$	19,541	$	-	$	19,541
Depreciation		20,298		-		20,298
Balance, December 31, 2023	$	39,839	$	-	$	39,839
Depreciation		16,136		-		16,136
Balance, June 30, 2024	$	55,975	$	-	$	55,975
Net book value						
December 31, 2023	$	958,609	$	20,887	$	979,496
June 30, 2024	**$**	**930,334**	**$**	**11,971**	**$**	**942,305**

During the six months ended June 30, 2024, the Corporation received $1.8 million of grant funding for achieving engineering design and regulatory approval milestones on its proposed renewable natural gas facility.

Assets under construction includes costs incurred on the Corporation's renewable natural gas facility and proposed sustainable aviation fuel facility.

6. BANK DEBT

The following table summarizes the Corporation's bank debt:

		June 30, 2024		December 31, 2023
Senior Credit Facility	**$**	**143,358**	$	171,749
Financing costs		**(550)**		(1,275)
Total bank debt	**$**	**142,808**	$	170,474

At June 30, 2024, total aggregate availability under the Corporation's Senior Credit Facility was $175.0 million, with a maturity on August 18, 2024.

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 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:

(Tabular amounts stated in thousands of Canadian dollars, except as noted)

	Ratio	**June 30, 2024**
Consolidated debt (1) to adjusted EBITDA (annualized)	Maximum 4.00:1	3.05
Consolidated first lien (2) senior debt to adjusted EBITDA (annualized)	Maximum 3.00:1	1.37
Adjusted EBITDA to interest coverage	Minimum 2.50:1	3.13

(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 June 30, 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:

		June 30, 2024		December 31, 2023
Senior Secured Second Lien Credit Facility	**$**	**175,000**	$	175,000
Discount (1)		**(15,618)**		(17,956)
Total term debt	**$**	**159,382**	$	157,044
Current portion of bank debt, net of financing costs		**24,500**		24,500
Long-term portion of bank debt, net of financing costs	**$**	**134,882**	$	132,544

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

The Term Debt Facility is subordinated to, and is subject to, the same financial covenants as the Corporation's Senior Credit Facility, as described in note 6.

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 (note 2). 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 quarterly 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.

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 as at June 30, 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	-		(945)
Balance, June 30, 2024	**3,375**	**$**	**2,250**

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:

		June 30, 2024		December 31, 2023
Exercise price per share	**$**	**14.84**	$	14.84
Common share price	**$**	**7.39**	$	8.07
Volatility factor expected market price		**36.14%**		34.96%
Risk-free interest rate		**3.83%**		3.17%
Remaining life (years)		**3.32**		3.81
Expected annual dividend per share		**0.00%**		0.00%
Fair value	**$**	**0.67**	$	0.95

A 10% change in the Corporation's share price would have an after-tax impact on net income of $0.8 million for the three and six months ended June 30, 2024 (three and six months ended June 30, 2023 - $0.9 million).

8. EQUITY ATTRIBUTABLE TO SHAREHOLDERS

a) Issued and outstanding common shares

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

	June 30, 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	105		765	44		469
Balance, end of period	**34,868**	**$**	**513,808**	34,763	$	513,043

b) Net income per share

	Three months ended June 30, 2024					Three months ended June 30, 2023				
		Net income	Common shares (000s)		Net income per share		Net income	Common shares (000s)		Net income per share
Net income attributable to shareholders - basic	**$**	**4,935**	**34,847**	**$**	**0.14**	$	2,654	34,722	$	0.08
Dilutive effect of Share awards		**-**	**1,181**		**-**		-	891		(0.01)
Net income attributable to shareholders - diluted	**$**	**4,935**	**36,028**	**$**	**0.14**	$	2,654	35,613	$	0.07

For the three months ended June 30, 2024, 0.5 million share awards (June 30, 2023 - 0.8 million) and 3.4 million of warrants (June 30, 2023 - 3.4 million) were anti-dilutive.

	Six months ended June 30, 2024					Six months ended June 30, 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	**$**	**12,655**	**34,812**	**$**	**0.36**	$	(18,823)	34,721	$	(0.54)
Dilutive effect of Share awards		**-**	**1,382**		**(0.01)**		-	-		-
Net income (loss) attributable to shareholders - diluted	**$**	**12,655**	**36,194**	**$**	**0.35**	$	(18,823)	34,721	$	(0.54)

For the six months ended June 30, 2024, 0.5 million share awards (June 30, 2023 - 1.6 million) and 3.4 million of warrants (June 30, 2023 - 3.4 million) were anti-dilutive.

(Tabular amounts stated in thousands of Canadian dollars, except as noted)

9. REVENUE AND OPERATING EXPENSES

For the three and six months ended June 30, 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 June 30, 2024	Renewable fuels	Renewable natural gas	Renewable marketing	Total
Revenue (before intercompany eliminations)	$ 145,193	$ 2,045	$ 1,002	$ 148,240
Intercompany eliminations	-	-	(1,002)	(1,002)
Revenue from external customers	$ 145,193	$ 2,045	$ -	$ 147,238
Operating expenses (before intercompany eliminations)	$ 103,185	$ 595	$ 693	$ 104,473
Intercompany eliminations	(1,002)	-	-	(1,002)
Operating expenses from external vendors	$ 102,183	$ 595	$ 693	$ 103,471
Gross margin	**$ 43,010**	**$ 1,450**	**$ (693)**	**$ 43,767**

Three months ended June 30, 2023	Renewable fuels	Renewable natural gas	Renewable marketing	Total
Revenue (before intercompany eliminations)	$ 10,730	$ 2,937	$ 258	$ 13,925
Intercompany eliminations	-	-	(762)	(762)
Revenue from external customers	$ 10,730	$ 2,937	$ (504)	$ 13,163
Operating expenses (before intercompany eliminations)	$ 6,704	$ 892	$ (201)	$ 7,395
Intercompany eliminations	(762)	-	-	(762)
Operating expenses from external vendors	$ 5,942	$ 892	$ (201)	$ 6,633
Gross margin	$ 4,788	$ 2,045	$ (303)	$ 6,530

Six months ended June 30, 2024	Renewable fuels	Renewable natural gas	Renewable marketing	Total
Revenue (before intercompany eliminations)	$ 252,859	$ 5,618	$ 1,733	$ 260,210
Intercompany eliminations	-	-	(1,733)	(1,733)
Revenue from external customers	$ 252,859	$ 5,618	$ -	$ 258,477
Operating expenses (before intercompany eliminations)	$ 182,244	$ 1,455	$ 1,198	$ 184,897
Intercompany eliminations	(1,733)	-	-	(1,733)
Operating expenses from external vendors	$ 180,511	$ 1,455	$ 1,198	$ 183,164
Gross margin	**$ 72,348**	**$ 4,163**	**$ (1,198)**	**$ 75,313**

(Tabular amounts stated in thousands of Canadian dollars, except as noted)

Six months ended June 30, 2023		Renewable fuels		Renewable natural gas		Renewable marketing		Total
Revenue (before intercompany eliminations)	$	26,674	$	6,269	$	1,565	$	34,508
Intercompany eliminations		-		-		(1,449)		(1,449)
Revenue from external customers	$	26,674	$	6,269	$	116	$	33,059
Operating expenses (before intercompany eliminations)	$	13,610	$	2,201	$	960	$	16,771
Intercompany eliminations		(1,449)		-		-		(1,449)
Operating expenses from external vendors	$	12,161	$	2,201	$	960	$	15,322
Gross margin	$	14,513	$	4,068	$	(844)	$	17,737

10. FINANCE COSTS AND OTHER

Finance costs and other are comprised of the following:

		Three months ended		**June 30,**		**Six months ended**		**June 30,**
		2024		2023		**2024**		2023
Interest on bank debt and term debt	**$**	**7,842**	$	7,064	**$**	**16,645**	$	12,068
Interest capitalized		**-**		(3,500)		**-**		(5,500)
Total interest expense		**7,842**		3,564		**16,645**		6,568
Realized foreign exchange loss (gain)		**379**		(607)		**851**		91
Unrealized foreign exchange loss (gain)		**162**		(409)		**572**		(427)
Total finance costs and other before accretion	**$**	**8,383**	$	2,548	**$**	**18,068**	$	6,232
Unwinding of discount on decommissioning obligations		**28**		13		**55**		38
Unwinding of discount on long-term debt		**1,631**		1,668		**3,336**		3,032
Unwinding of discount on lease liabilities		**262**		313		**544**		647
Total accretion		**1,921**		1,994		**3,935**		3,717
Unrealized gain on investments (note 4)		**-**		-		**(2,348)**		-
Total finance costs and other	**$**	**10,304**	$	4,542	**$**	**19,655**	$	9,949

11. GENERAL AND ADMINISTRATIVE

General and administrative expenses are comprised of the following:

		Three months ended		**June 30,**		**Six months ended**		**June 30,**
		2024		2023		**2024**		2023
Employee costs	**$**	**2,386**	$	2,126	**$**	**3,007**	$	3,741
Capitalized corporate costs		**-**		(1,000)		**(500)**		(1,900)
Non-recurring (1)		**1,152**		-		**1,152**		337
External services (2)		**639**		314		**772**		680
Licenses and insurance		**123**		105		**198**		237
Rent and office expenses		**234**		129		**257**		260
Other		**51**		179		**186**		288
Total general and administrative expenses	**$**	**4,585**	$	1,853	**$**	**5,072**	$	3,643

(1) Primarily includes costs related to executive and management restructuring changes.
(2) Includes accounting, legal and consulting costs.

(Tabular amounts stated in thousands of Canadian dollars, except as noted)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

At June 30, 2024, the fair value of cash and cash equivalents, accounts receivable, accounts payables, accrued liabilities and provisions 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. Credit risk arises principally from the Corporation's accounts receivable, and from financial counterparties holding cash, cash equivalents and derivative contracts. Cash consists of amounts on deposit with Canadian chartered banks. The Corporation manages credit exposure of cash and cash equivalents by selecting financial institutions with high credit ratings.

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 June 30, 2024, lifetime expected credit losses for accounts receivable outstanding were $0.2 million (December 31, 2023 - $0.2 million).

c) Liquidity risk

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

The Corporation has insufficient cash to fund operations for the next twelve months if the outstanding debt matures without extension or refinancing. While the Proposed Transaction (note 2) will immediately enhance Tidewater Renewables' leverage profile and reduce cash interest costs, there can be no assurances that the future market prices of BC LCFS capital and operating emission credits will recover to historical levels. If the Corporation is unable to close the Proposed Transaction, or the Proposed Transaction closes and the BC LCFS capital and operating emissions credit prices do not recover by the second quarter of 2025, the Corporation's profitability will be significantly impacted, necessitating alternative funding sources and there can be no assurances that such financing will be available to the Corporation. Any refinancing may also be at higher interest rates, less favourable terms, may require compliance with more onerous covenants, or result in dilution of shareholders.

The following table details the contractual maturities of the Corporation's financial liabilities as at June 30, 2024 and December 31, 2023:

	June 30, 2024		December 31, 2023	
	Less than one year	Greater than one year	Less than one year	Greater than one year
Accounts payable, accrued liabilities and provisions [(1)]	$ 51,818	$ -	$ 43,279	$ -
Derivative contracts	32,175	13,458	27,299	18,836
Warrant liability	2,250	-	3,195	-
Lease liabilities and other [(2)]	7,065	9,898	6,832	13,009
Bank debt [(3)]	143,358	-	171,749	-
Term debt [(3)]	25,000	150,000	25,000	150,000
Total financial liabilities	**$ 261,666**	**$ 173,356**	$ 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.

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 may use forward interest rate swaps to hedge the interest rate associated with interest payments occurring as a result of its bank debt.

At June 30, 2024, the Corporation had variable rate bank debt (note 6) totalling $143.4 million. A 1% change in the interest rates on bank debt would have an after-tax impact on net income of approximately $0.3 million and $0.6 million for the three and six months ended June 30, 2024, respectively.

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). As at June 30, 2024, net working capital liabilities and derivative contract balances denominated in USD were $40.5 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 $2.1 million for the six months ended June 30, 2024.

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 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 $5.2 million for the six months ended June 30, 2024.

(Tabular amounts stated in thousands of Canadian dollars, except as noted)

13. 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 proposed transaction described in note 2, 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 and six months ended June 30, 2024 and 2023, are summarized in the following table:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	**2024**	2023
Revenue from take-or-pay agreements	**$ 11,296**	$ 12,880	**$ 23,253**	$ 25,498
Revenue from the sale of renewable fuels	**47,623**	508	**77,322**	6,188
Purchases of blending fuels (1)	**22,348**	-	**50,104**	-
Purchase of emission credits	**6,023**	-	**6,023**	-
Other operating expenses	**9,978**	1,444	**18,131**	6,848
G&A expenses under the shared services agreement (2)	**786**	753	**1,286**	1,579
Realized loss on derivative contracts	**1,030**	42	**1,841**	106
Unrealized loss (gain) on derivative contracts	**1,309**	(992)	**743**	1,765

(1) 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.
(2) The Corporation and Tidewater Midstream have a Shared Services Agreement, whereby, Tidewater Midstream has agreed to provide certain administrative services to the Corporation at cost plus 5%, and reimbursement of associated out-of-pocket costs and expenses. The Shared Services Agreement will remain in effect until August 2026, subject to earlier termination or extension upon mutual agreement by the parties.

Related party transactions included in the consolidated statement of cash flow for the three and six months ended June 30, 2024 and 2023, are summarized in the following table:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	**2024**	2023
Lease payments	**$ (31)**	$ (31)	**$ (62)**	$ (62)
Capital emissions credit sales	**-**	-	**12,250**	4,600

b) Related party balances

The related party balances included in the consolidated statement of financial position as June 30, 2024 and December 31, 2023, are summarized in the following table:

	June 30, 2024	December 31, 2023
Account receivable	**$ 5,260**	$ 5,522
Prepaid expenses and other	**-**	3,900
Accounts payable, accrued liabilities and provisions	**(8,870)**	(6,144)
Derivative contracts	**(6,731)**	(5,988)
Lease liabilities	**(392)**	(442)