

NUVISTA ENERGY LTD.

Condensed Statements of Financial Position
(Unaudited)

(\$Cdn thousands)	September 30	December 31
	2019	2018
Assets		
Current assets		
Accounts receivable and prepaid expenses	56,034	53,334
Financial derivative assets (note 17)	35,904	40,486
Other receivable (note 4)	21,202	—
	113,140	93,820
Financial derivative assets (note 17)	3,795	76,763
Exploration and evaluation assets (note 5)	28,652	30,165
Property, plant and equipment (note 6)	2,109,886	1,980,126
Right-of-use assets (note 7)	118,708	—
Total assets	\$ 2,374,181	\$ 2,180,874
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 80,918	\$ 90,074
Current portion of lease liabilities (note 10)	2,755	—
Current portion of asset retirement obligations (note 11)	12,600	12,500
	96,273	102,574
Long-term debt (note 8)	356,771	257,395
Senior unsecured notes (note 9)	216,563	215,892
Other liabilities (note 16)	1,138	1,381
Lease liabilities (note 10)	117,279	—
Asset retirement obligations (note 11)	126,352	90,203
Financial derivative liabilities (note 17)	3,168	—
Deferred tax liability	80,108	108,412
	997,652	775,857
Shareholders' equity		
Share capital (note 12)	1,217,265	1,216,067
Contributed surplus	57,295	52,705
Retained earnings	101,969	136,245
	1,376,529	1,405,017
Total liabilities and shareholders' equity	\$ 2,374,181	\$ 2,180,874
Subsequent events (note 17)		
Commitments (note 20)		

See accompanying notes to the condensed interim financial statements.

NUVISTA ENERGY LTD.

Condensed Statements of Earnings (Loss) and Comprehensive Income (Loss)
(Unaudited)

(\$Cdn thousands, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenues				
Petroleum and natural gas (note 14)	\$ 132,801	\$ 150,956	\$ 404,617	\$ 412,843
Royalties	(7,488)	(5,282)	(18,102)	(11,425)
Net revenue from petroleum and natural gas sales	125,313	145,674	386,515	401,418
Financial derivative contracts				
Realized gain (loss) on financial derivatives	9,060	(13,451)	13,425	(27,652)
Unrealized loss on financial derivatives	(15,299)	(25,484)	(80,719)	(36,565)
Net revenue from petroleum and natural gas sales and gains (losses) on financial derivatives	119,074	106,739	319,221	337,201
Expenses				
Transportation	14,462	11,406	41,470	31,861
Operating	47,510	36,199	127,747	102,717
General and administrative	4,135	4,356	12,372	13,460
Share-based compensation (note 16)	1,460	794	4,129	4,337
Transaction costs	—	2,624	—	2,624
Depletion, depreciation and amortization	49,648	38,272	170,069	109,624
Exploration and evaluation (note 5)	2,691	335	3,668	1,789
Loss (gain) on property dispositions	—	—	(1,934)	146
Financing costs (note 18)	8,987	5,696	24,280	23,168
	128,893	99,682	381,801	289,726
Earnings (loss) before taxes	(9,819)	7,057	(62,580)	47,475
Deferred income tax expense (recovery)	(2,169)	3,590	(28,304)	15,316
Net earnings (loss) and comprehensive income (loss)	\$ (7,650)	\$ 3,467	\$ (34,276)	\$ 32,159
Net earnings (loss) per share (note 13)				
Basic	\$ (0.03)	\$ 0.02	\$ (0.15)	\$ 0.18
Diluted	\$ (0.03)	\$ 0.02	\$ (0.15)	\$ 0.18

See accompanying notes to the condensed interim financial statements.

NUVISTA ENERGY LTD.

Condensed Statements of Changes in Shareholders' Equity
(Unaudited)

(\$Cdn thousands)	Nine months ended September 30	
	2019	2018
Share capital (note 12)		
Balance, January 1	\$ 1,216,067	\$ 1,276,426
Issued for cash on offering of common shares	—	384,068
Issued for cash on offering of flow-through common shares, net of implied premium of \$2.6 million	—	22,331
Issued for cash on exercise of stock options	45	4,953
Contributed surplus transferred on exercise of stock options	15	1,718
Conversion of restricted share awards	1,133	1,222
Conversion of performance share awards	5	—
Share issue costs, net of deferred tax benefit of \$5.0 million	—	(13,465)
Elimination of deficit	—	(462,392)
Balance, end of period	\$ 1,217,265	\$ 1,214,861
Contributed surplus		
Balance, January 1	\$ 52,705	\$ 49,545
Share-based compensation	5,742	5,253
Transfer to share capital on exercise of stock options	(15)	(1,718)
Conversion of restricted share awards	(1,132)	(1,222)
Conversion of performance share awards	(5)	—
Balance, end of period	\$ 57,295	\$ 51,858
Retained earnings (deficit)		
Balance, January 1	\$ 136,245	\$ (462,392)
Net earnings (loss)	(34,276)	32,159
Elimination of deficit	—	462,392
Balance, end of period	\$ 101,969	\$ 32,159
Total shareholders' equity	\$ 1,376,529	\$ 1,298,878

See accompanying notes to the condensed interim financial statements.

NUVISTA ENERGY LTD.

Condensed Statements of Cash Flows
(Unaudited)

(\$Cdn thousands)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash provided by (used in)				
Operating activities				
Net earnings (loss)	\$ (7,650)	\$ 3,467	\$ (34,276)	\$ 32,159
Items not requiring cash from operations:				
Depletion, depreciation and amortization	49,648	38,272	170,069	109,624
Exploration and evaluation (note 5)	2,691	335	3,668	1,789
Loss (gain) on property dispositions	—	—	(1,934)	146
Share-based compensation (note 16)	1,461	1,023	4,372	3,978
Unrealized loss on financial derivatives	15,299	25,484	80,719	36,565
Deferred income tax expense (recovery)	(2,169)	3,590	(28,304)	15,316
Accretion (note 11)	519	439	1,458	1,236
Asset retirement expenditures (note 11)	(556)	(2,680)	(13,671)	(10,623)
Change in non-cash working capital (note 19)	(10,245)	(18,190)	1,434	(9,580)
	48,998	51,740	183,535	180,610
Financing activities				
Issue of share capital, net of share issue costs	—	391,087	45	395,526
Payment on lease liabilities	391	—	103	—
Increase of long-term debt	24,352	264,559	99,376	151,937
Issuance of senior unsecured notes, net of financing costs	—	—	—	215,142
Repayment of senior unsecured notes	—	—	—	(67,680)
	24,743	655,646	99,524	694,925
Investing activities				
Property, plant and equipment expenditures	(61,331)	(64,705)	(258,809)	(258,940)
Exploration and evaluation expenditures	(1,908)	(1,112)	(4,442)	(4,419)
Other receivable expenditures	2,019	—	(6,959)	—
Property acquisitions	—	(617,765)	—	(617,765)
Proceeds on property dispositions	—	—	14	—
Change in non-cash working capital (note 19)	(12,521)	(23,804)	(12,863)	5,589
	(73,741)	(707,386)	(283,059)	(875,535)
Change in cash and cash equivalents	—	—	—	—
Cash and cash equivalents, beginning of period	—	—	—	—
Cash and cash equivalents, end of period	\$ —	\$ —	\$ —	\$ —
Cash interest paid	\$ 10,839	\$ 8,385	\$ 24,657	\$ 20,200

See accompanying notes to the condensed interim financial statements.

NUVISTA ENERGY LTD.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Three and nine months ended September 30, 2019 with comparative figures for 2018. All tabular amounts are in thousands of Canadian dollars, except share and per share amounts, unless otherwise stated.

1. Corporate information

NuVista Energy Ltd. ("NuVista" or the "Company") is a Canadian publicly traded company incorporated in the province of Alberta. The Company is a condensate and natural gas company actively engaged in the exploration, development and production of condensate, oil and natural gas reserves in the Western Canadian Sedimentary Basin. NuVista's focus is on the scalable and repeatable condensate-rich Montney formation in the Alberta Deep Basin.

The address of the Company's head office is 2500, 525 – 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1G1.

2. Basis of preparation

These condensed interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting". These financial statements have been prepared following the same accounting policies, except for the adoption of IFRS 16 - *Leases*, and methods of computation as the annual financial statements for the year ended December 31, 2018. These financial statements do not include all the information required for annual financial statements and should be read in conjunction with the audited financial statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were approved and authorized for issuance by the Board of Directors on November 8, 2019.

3. Changes in significant accounting policies

IFRS 16 - Leases

NuVista adopted IFRS 16 - *Leases* ("IFRS 16") on January 1, 2019. IFRS 16 introduces a single recognition and measurement model for leases which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

NuVista adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as an increase to right-of-use assets with a corresponding increase to lease liabilities.

On adoption of IFRS 16, the Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases, short-term and low-value leases, and discounted using the Company's incremental borrowing rate as of January 1, 2019. The associated right-of-use assets were measured at the amount equal to the lease liability on January 1, 2019, with no impact on retained earnings. The weighted average incremental borrowing rate used to determine the lease liability at adoption was 5.5%. The right-of-use assets and lease liabilities recognized relate to the Company's head office lease in Calgary, and the field office lease in Grande Prairie.

The Company has elected to apply the practical expedient of not recognizing right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease

payments associated with these leases are recognized as expenses on a straight-line basis over the lease term and are not considered material at September 30, 2019.

Adjustments to the condensed statements of financial position at January 1, 2019 is as follows:

	As reported as at December 31, 2018	Adjustment	Restated balance as at January 1, 2019
Right-of-use assets	\$ —	\$ 5,481	\$ 5,481
Lease liabilities		(5,481)	(5,481)
Total	\$ —	\$ —	\$ —

As a result of this new standard, NuVista has adopted the following significant accounting policy for leases effective January 1, 2019:

Leases

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as "operating" leases under the principles of IAS 17 - *Leases* ("IAS 17"). A contract is, or contains, 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. Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company.

A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date, discounted at the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Each lease payment is allocated between the liability and lease interest expense. The lease interest expense is charged to the condensed statement of income (loss) and comprehensive income (loss) over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. A corresponding right-of-use asset is recognized at the amount of the lease liability. The right-of-use asset is depreciated on a straight line basis over the term of the lease. Lease payments on short term leases with lease terms of less than twelve months or leases on which the underlying asset is of low value are accounted for as expenses in the condensed statements of earnings (loss) and comprehensive income (loss).

The preparation of the financial statements in accordance with IFRS 16 requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates and assumptions related to the application of IFRS 16 include:

(a) Incremental borrowing rate

The incremental borrowing rates are based on judgments including economic environment, term, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities and the resulting lease interest and depreciation expense may differ due to changes in the market conditions and lease term.

(b) Lease term

Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

4. Other receivable

The Company has incurred a total of \$78.2 million in expenditures for the construction of a compressor station at Pipestone South. The Company has entered into a contract and secured third party ownership and funding of the asset and has been reimbursed \$57.0 million as of September 30, 2019. The balance of these costs have been classified as an other receivable under current assets. Under the terms of the contract, NuVista will be compensated to complete the construction of the asset in exchange for entering into a long term commitment for operatorship and use of the compressor station.

5. Exploration and evaluation assets

	September 30, 2019	December 31, 2018
Balance, January 1	\$ 30,165	\$ 64,298
Additions	6,376	4,872
Acquisitions	—	28,122
Capitalized share-based compensation (note 16)	251	336
Transfers to property, plant and equipment (note 6)	(4,472)	(64,753)
Expiries (exploration and evaluation expense)	(3,668)	(2,710)
Balance, end of period	\$ 28,652	\$ 30,165

At September 30, 2019, there were no indicators of impairment in NuVista's E&E assets, therefore an impairment test was not performed.

6. Property, plant and equipment

	September 30, 2019	December 31, 2018
Cost		
Balance, January 1	\$ 2,779,988	\$ 1,671,300
Additions	244,566	335,920
Acquisitions	—	676,436
Dispositions	(14)	(562)
Capitalized share-based compensation (note 16)	1,120	1,313
Change in asset retirement obligations (note 11)	48,462	30,828
Transfers from exploration and evaluation assets (note 5)	4,472	64,753
Balance, end of period	\$ 3,078,594	\$ 2,779,988

	September 30, 2019	December 31, 2018
Accumulated depletion, depreciation and amortization		
Balance, January 1	\$ 799,862	\$ 644,184
Depletion, depreciation, amortization and impairment expense	168,846	156,080
Dispositions	—	(402)
Balance, end of period	\$ 968,708	\$ 799,862

	September 30, 2019	December 31, 2018
Carrying value		
Balance, January 1	\$ 1,980,126	\$ 1,027,116
Balance, end of period	\$ 2,109,886	\$ 1,980,126

During the nine months ended September 30, 2019, there were no indicators of impairment or reversal of impairment identified on any of the Company's CGU's within property, plant & equipment, therefore an impairment test was not performed.

7. Right-of-use assets

	Office Leases	Gas Transportation Lease	Gas Processing Lease	Total
Cost:				
Balance, January 1, 2019 (note 3)	\$ 5,481	\$ —	\$ —	5,481
Additions	—	36,921	77,529	114,450
Balance, September 30, 2019	\$ 5,481	\$ 36,921	\$ 77,529	\$ 119,931
Accumulated depreciation:				
Balance, January 1, 2019	\$ —	\$ —	\$ —	—
Depreciation	594	201	428	1,223
Balance, September 30, 2019	\$ 594	\$ 201	\$ 428	\$ 1,223
Carrying amount:				
Balance, January 1, 2019	\$ 5,481	\$ —	\$ —	5,481
Balance, September 30, 2019	\$ 4,887	\$ 36,720	\$ 77,101	\$ 118,708

8. Long-term debt

At September 30, 2019, the Company had a \$500 million (December 31, 2018 - \$450 million) extendible revolving term credit facility available from a syndicate of Canadian chartered banks. Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin. For the nine months ended September 30, 2019, borrowing costs averaged 3.7% (December 31, 2018 - 3.3%). The credit facility is secured by a first floating charge debenture, general assignment of book debts and the Company's condensate and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time the lenders can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a review of the maximum borrowing amount occurs annually on or before April 30 and semi-annually on or before October 31. During the term period, no principal payments would be required until a year after the revolving period matures on April 30, in the event of a reduction or the credit facility not being renewed.

As at September 30, 2019, the Company had drawn \$356.8 million on its credit facility (December 31, 2018 - \$257.4 million) and had outstanding letters of credit of \$8.0 million, which reduce the credit available on the credit facility. The credit facility does not contain any financial covenants, but the Company is subject to various non-financial covenants under its credit facility. These covenants are monitored on a regular basis and as at September 30, 2019, the Company was in compliance with all covenants.

During the third quarter, NuVista requested and received an extension of the renewal date of the credit facility from October 31, 2019 to on or before November 29, 2019 from the banking syndicate.

9. Senior unsecured notes

On March 2, 2018, the Company issued \$220.0 million aggregate principal amount of 6.50% senior unsecured notes due March 2, 2023 ("2023 Notes"). Interest is payable semi-annually in arrears. The 2023 Notes are fully

and unconditionally guaranteed as to the payment of principal and interest, on a senior unsecured basis by the Company. There are no maintenance or financial covenants.

The 2023 Notes are non-callable by the Company prior to March 2, 2020. At any time on or after March 2, 2020, the Company may redeem all or part of the 2023 Notes at the redemption prices set forth in the table below plus any accrued and unpaid interest:

12 month period ended:	Percentage
March 2, 2021	103.250%
March 2, 2022	101.625%
March 2, 2023	100.000%

If a change of control occurs, each holder of the 2023 Notes will have the right to require the Company to purchase all or any part of that holder's 2023 Notes for an amount in cash equal to 101% of the aggregate principal repurchased plus accrued and unpaid interest.

On June 22, 2016, the Company issued \$70.0 million of 9.875% senior unsecured notes ("2021 Notes") with a 5 year term by way of private placement. Proceeds net of discount and costs amounted to \$66.9 million. Interest is payable in equal quarterly installments in arrears. The 2021 Notes are fully and unconditionally guaranteed as to the payment of principal and interest, on a senior unsecured basis by the Company. There are no maintenance financial covenants. On March 2, 2018, part of the proceeds from the 2023 Notes were used to redeem the full aggregate principal amount of \$70.0 million the Company's existing 2021 Notes, resulting in an agreed redemption call premium of \$6.6 million and \$2.2 million of remaining accretion of the carrying value which is included in financing costs, for a total incremental expense on redemption of \$8.8 million.

10. Lease Liabilities

The Company has the following future commitments associated with its lease obligations relating to office leases, gas processing and gas transportation commitments:

	September 30, 2019
Lease liabilities at January 1, 2019	\$ 5,481
Additions ⁽¹⁾	114,450
Lease interest expense	1,049
Principal repayment of leases	(946)
Lease liabilities at September 30, 2019	120,034
Current portion of lease liabilities	2,755
Non current portion of lease liabilities	117,279

⁽¹⁾ The incremental borrowing rate used to determine the lease liabilities for the gas transportation and processing commitments added in the 3 months ending September 30, 2019, is 11% and 8%, respectively.

The following table details the undiscounted cash flows and contractual maturities of NuVista's lease liabilities, as at September 30, 2019:

	September 30, 2019
Less than 1 year	\$ 13,171
1-3 years	44,932
4-5 years	29,304
After 5 years	128,490
Total undiscounted future lease payments	215,897
Amounts representing lease interest expense over the term of the lease	(95,863)
Present value of net lease payments	\$ 120,034

11. Asset retirement obligations

	September 30, 2019	December 31, 2018
Balance, January 1	\$ 102,703	\$ 72,430
Accretion expense	1,458	1,776
Liabilities acquired	—	11,141
Change in discount rate, Pipestone Acquisition	—	17,571
Liabilities incurred	3,559	3,291
Liabilities disposed	—	(14)
Change in estimates	30,726	5,791
Change in discount rate	14,177	4,175
Liabilities settled	(13,671)	(13,458)
Balance, end of period	\$ 138,952	\$ 102,703
Expected to be incurred within one year	\$ 12,600	\$ 12,500
Expected to be incurred beyond one year	\$ 126,352	\$ 90,203

The Company's asset retirement obligations are based on estimated costs to reclaim and abandon ownership interests in condensate and natural gas assets including well sites, gathering systems and processing facilities. At September 30, 2019, the estimated total undiscounted, uninflated amount of cash flows required to settle the asset retirement obligations is \$127.8 million (December 31, 2018 – \$106.0 million), which is estimated to be incurred within the next 50 years. The Bank of Canada's long-term risk-free bond rate of 1.5% (December 31, 2018 – 2.2%) and an inflation rate of 2.0% (December 31, 2018 – 2.0%) were used to calculate the net present value of the asset retirement obligations. The increase in the ARO liability is due primarily to increases in abandonment cost estimates for certain wells in our non core northwest Alberta area.

12. Share capital

Common shares

	September 30, 2019		December 31, 2018	
	Number	Amount	Number	Amount
Balance, January 1	225,306,055	\$ 1,216,067	174,003,588	\$ 1,276,426
Issued for cash on offering of common shares	—	—	47,415,801	384,068
Issued for cash on offering of flow-through common shares ⁽¹⁾	—	—	2,756,880	22,331
Issued for cash on exercise of stock options	10,600	45	808,604	5,201
Contributed surplus transferred on exercise of stock options	—	15	—	1,806
Conversion of restricted share awards	156,879	1,133	321,182	2,092
Conversion of performance share awards	558	5	—	—
Share issue costs ⁽²⁾	—	—	—	(13,465)
Elimination of deficit	—	—	—	(462,392)
Balance, end of period	225,474,092	\$ 1,217,265	225,306,055	\$ 1,216,067

⁽¹⁾ Net of implied premium of nil (2018 - \$2.6 million) on flow-through share price compared to common share issue price.

⁽²⁾ Net of deferred tax benefit of nil (2018 - \$5.0 million).

13. Earnings (loss) per share

The following table summarizes the weighted average common shares used in calculating net earnings (loss) per share:

(thousands of shares)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Weighted average common shares outstanding				
Basic	225,474	187,994	225,400	178,893
Diluted	225,474	188,808	225,400	179,823

14. Petroleum and natural gas revenues

NuVista produces natural gas, condensate, oil and NGLs from its assets in the Wapiti Montney area of Alberta. The Company sells its production pursuant to fixed-price or variable-price physical delivery contracts. The transaction price for variable-price contracts is based on benchmark commodity price, adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, NuVista is required to deliver fixed or variable volumes of commodity to the contract counterparty.

Petroleum and natural gas revenue is recognized when NuVista gives up control of the unit of production at the delivery point agreed to under the terms of the contract. The amount of production revenue recognized is based on the agreed transaction price and the volumes delivered. Any variability in the transaction price relates specifically to NuVista's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period to which the variability relates. NuVista does not have any factors considered to be constraining in the recognition of revenue with variable pricing factors.

NuVista enters into contracts with customers with terms ranging from one month to seven years.

Under its contracts with customers, NuVista is required to deliver volumes of natural gas, condensate, oil and NGLs to agreed upon locations where control over the delivered volumes is transferred to the customer. In instances where the third party marketer takes title of NuVista's product but uses NuVista's pipeline contract to deliver the product to the end customer, a portion of the natural gas revenue is recognized as natural gas price diversification revenue. Revenue is recognized when control of each unit of product is transferred to the customer with revenue due on the 25th day of the month following delivery.

NuVista's customers are primarily oil and natural gas marketers and partners in joint operations in the oil and natural gas industry. Concentration of credit risk is mitigated by marketing production to several oil and natural gas marketers under customary industry and payment terms. NuVista reviews the credit worthiness and obtains certain financial assurances from customers prior to entering sales contracts. The financial strength of the Company's customers is reviewed on a routine basis.

The following table summarizes petroleum and natural gas revenue by product:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Natural gas revenue ⁽¹⁾	\$ 38,150	\$ 44,952	\$ 133,715	\$ 126,034
Condensate & oil revenue	91,808	95,226	255,825	257,980
NGL revenue ⁽²⁾	2,843	10,778	15,077	28,829
Total petroleum and natural gas revenue	\$ 132,801	\$ 150,956	\$ 404,617	\$ 412,843

⁽¹⁾ Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the three and nine months ended September 30, 2019, our physical delivery sales contracts resulted in gains of \$3.5 million and \$5.3 million (2018 – \$5.8 million gain and \$17.2 million gain).

⁽²⁾ Includes butane, propane, ethane and an immaterial amount of sulphur revenue.

A breakdown of natural gas revenue is as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Natural gas revenue - AECO reference price ⁽¹⁾	\$ 16,857	\$ 16,511	\$ 63,192	\$ 50,873
Heat/value adjustment ⁽²⁾	1,748	1,814	5,841	4,998
Transportation revenue ⁽³⁾	7,065	7,205	21,587	19,273
Natural gas market diversification revenue	9,009	13,631	37,828	33,693
AECO physical delivery price risk management gains ⁽⁴⁾	3,471	5,791	5,267	17,197
Total natural gas revenue	\$ 38,150	\$ 44,952	\$ 133,715	\$ 126,034

⁽¹⁾ Quarter average AECO 7A monthly index.

⁽²⁾ Based on NuVista's historical adjustment of 9-10%.

⁽³⁾ Cost of gas transportation from the transfer of custody sales point to the final sales point.

⁽⁴⁾ Excludes price risk management realized and unrealized gains and losses on financial derivative commodity contracts but includes gains and losses on physical sale contracts.

Included in the accounts receivable at September 30, 2019 is \$47.7 million (December 31, 2018 - \$39.7 million) of accrued petroleum and natural gas revenue related to deliveries for periods prior to the reporting date. There were no significant adjustments for prior period accrued petroleum and natural gas revenue reflected in the Company's current period.

15. Capital management

The Company manages its capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. NuVista is able to change its capital structure by issuing new shares, new debt, or changing capital expenditures relative to adjusted funds flow.

NuVista's long term strategy is to maintain a net debt to annualized current quarter adjusted funds flow ratio of approximately 1.5 times. The actual ratio may fluctuate on a quarterly basis above or below targeted levels due to a number of factors including facility outages, commodity prices and the timing of acquisitions and dispositions. At September 30, 2019, the Company's net debt was 2.4 times its annualized current quarter adjusted funds flow.

Adjusted funds flow

NuVista considers adjusted funds flow to be a key measure that provides a more complete understanding of the Company's ability to generate cash flow necessary to finance capital expenditures, expenditures on asset retirement obligations, and meet its financial obligations. NuVista has calculated adjusted funds flow based on cash flow provided by operating activities, excluding changes in non-cash working capital, asset retirement expenditures and environmental remediation recovery, as management believes the timing of collection,

payment, and occurrence is variable and by excluding them from the calculation, management is able to provide a more meaningful performance measure of NuVista's operations on a continuing basis. More specifically, expenditures on asset retirement obligations may vary from period to period depending on the Company's capital programs and the maturity of its operating areas, while environmental remediation recovery relates to an incident that management doesn't expect to occur on a regular basis. The settlement of asset retirement obligations is managed through NuVista's capital budgeting process which considers its available adjusted funds flow.

A reconciliation of adjusted funds flow is presented in the following table:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash provided by operating activities	\$ 48,998	\$ 51,740	\$ 183,535	\$ 180,610
Asset retirement expenditures	556	2,680	13,671	10,623
Change in non-cash working capital	10,245	18,190	(1,434)	9,580
Adjusted funds flow ⁽¹⁾	\$ 59,799	\$ 72,610	\$ 195,772	\$ 200,813

⁽¹⁾ Adjusted funds flow as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures of other entities.

Net debt and total capitalization

Net debt is used by management to provide a more complete understanding of the Company's capital structure and provides a key measure to assess the Company's liquidity. NuVista has calculated net debt based on cash and cash equivalents, accounts receivable and prepaid expenses, other receivable, accounts payable and accrued liabilities, long term debt (credit facility) and senior unsecured notes. Total market capitalization and net debt to annualized current quarter adjusted funds flow are used by management and the Company's investors in analyzing the Company's balance sheet strength and liquidity.

The following is a summary of total market capitalization, net debt, annualized current quarter adjusted funds flow, and net debt to annualized current quarter adjusted funds flow:

	September 30, 2019	December 31, 2018
Basic common shares outstanding	225,474	225,306
Share price ⁽¹⁾	2.48	4.08
Total market capitalization	559,176	919,248
Cash and cash equivalents, accounts receivable and prepaid expenses	(56,034)	(53,334)
Other receivable	(21,202)	—
Accounts payable and accrued liabilities	80,918	90,074
Long-term debt (credit facility)	356,771	257,395
Senior unsecured notes	216,563	215,892
Other liabilities	1,138	1,381
Net debt ⁽²⁾	578,154	511,408
Annualized current quarter adjusted funds flow	239,196	254,540
Net debt to annualized current quarter adjusted funds flow	2.4	2.0

⁽¹⁾ Represents the closing share price on the Toronto Stock Exchange on the last trading day of the period.

⁽²⁾ Net debt as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures of other entities.

The net debt to annualized current quarter adjusted funds flow ratio represents the time period in years it would take to pay off the net debt if no further capital expenditures were incurred and if adjusted funds flow remained consistent.

16. Share-based compensation

Stock options

The Company has established a stock option plan whereby officers, directors and employees may be granted options to purchase common shares. Options granted vest at the rate of 1/3 per year and expire 2.5 years after the vesting date. The maximum number of stock options currently outstanding and available to be issued as at September 30, 2019 is 8.4 million. The following continuity table summarizes the stock option activity:

	September 30, 2019		December 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, January 1	6,859,491	\$ 6.78	6,478,308	\$ 7.43
Granted	940,760	3.61	2,368,461	5.82
Exercised	(10,600)	4.25	(808,604)	6.43
Forfeited	(118,482)	6.98	(589,332)	7.95
Expired	(401,680)	7.90	(589,342)	9.37
Balance, end of period	7,269,489	\$ 6.31	6,859,491	\$ 6.78
Weighted average share price on date of exercise	10,600	\$ 4.95	808,604	\$ 8.74

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2019:

Range of exercise price	Options outstanding			Options exercisable	
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$3.59 to \$4.99	2,958,940	3.5	\$ 4.15	355,682	\$ 4.25
\$5.00 to \$9.99	4,177,903	1.9	7.70	2,743,533	7.44
\$10.00 to \$10.79	132,646	0.2	10.78	132,646	10.78
\$3.59 to \$10.79	7,269,489	2.5	\$ 6.31	3,231,861	\$ 7.24

The Company uses the fair value based method for the determination of the share-based compensation costs. The fair value of each option granted during the year was estimated on the date of grant using the Black-Scholes option pricing model.

The weighted average fair value and weighted average assumptions used to fair value the options are as follows:

	September 30, 2019	December 31, 2018
Risk-free interest rate (%)	1.57	2.23
Expected volatility (%)	51	50
Expected life (years)	4.5	4.5
Forfeiture rate (%)	11	11
Fair value at grant date (\$ per option)	1.54	2.61

Share award incentive plan

The Company has a Share Award Incentive Plan ("the Plan") for employees and officers consisting of Restricted Share Awards ("RSA") and Performance Share Awards ("PSA"). The maximum number of common shares reserved for issuance under the Plan is 3,750,000 of which 3,592,563 remain to be issued.

Restricted share awards

The Company has a RSA plan for employees and officers which entitle the employee to receive one common share for each RSA granted upon vesting. RSA grants vest within three years from the date of grant. Life to date, all RSA grants have had a two year vesting period.

The fair value of RSAs is determined based on the weighted average trading price of the five days preceding the grant date. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. The amount of the compensation expense is reduced by an estimated forfeiture rate determined at the date of the grant and updated each period. Upon vesting of the RSAs and settlement in common shares, the previously recognized value in contributed surplus will be recorded as an increase to share capital.

The following table summarizes the change in the number of RSAs:

	September 30, 2019	December 31, 2018
Balance, January 1	538,520	645,992
Settled	(156,879)	(321,182)
Granted	283,810	275,921
Forfeited	(13,484)	(62,211)
Balance, end of period	651,967	538,520

Performance share awards

The Company has a PSA plan for employees and officers. Each PSA entitles the holder to be issued the number of common shares designated in the performance award, multiplied by a payout multiplier ranging from 0 to 2.0x. The payout multiplier for performance-based awards will be determined by our Board based on an assessment of the Company's achievement of predefined corporate performance measures in respect of the applicable period. PSA grants vest three years from the date of grant.

The fair value of PSAs is determined based on the weighted average trading price of the five days preceding the grant date. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. The amount of the compensation expense is reduced by an estimated forfeiture rate determined at the date of the grant and updated each period. Upon vesting of the PSAs and settlement in common shares, the previously recognized value in contributed surplus will be recorded as an increase to share capital.

The following table summarizes the change in the number of PSAs:

	September 30, 2019	December 31, 2018
Balance, January 1	279,429	—
Settled	(558)	—
Granted	293,837	295,078
Forfeited	(5,048)	(15,649)
Balance, end of period	567,660	279,429

Director deferred share units

The Company has a director deferred share unit ("DSU") incentive plan. Each DSU entitles participants to receive cash equal to the trading price of the equivalent number of shares of the Company. All DSUs granted vest and become payable upon retirement of the director.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of each reporting period. The following table summarizes the change in the number of DSUs:

	September 30, 2019	December 31, 2018
Balance, January 1	338,427	217,847
Granted	120,468	120,580
Forfeited	(22,401)	—
Balance, end of period	436,494	338,427

The following table summarizes the change in compensation liability relating to DSUs:

	September 30, 2019	December 31, 2018
Balance, January 1	\$ 1,381	\$ 1,747
Change in accrued compensation liabilities	(243)	(366)
Balance, end of period	\$ 1,138	\$ 1,381

Compensation liability resulting from DSUs granted in the nine months ended September 30, 2019, decreased due to an increase in the number of DSUs granted offset by a decrease in the closing share price used to value the liability at the end of the period, from \$4.08 at December 31, 2018 to \$2.48 at September 30, 2019.

The following table summarizes share-based compensation relating to stock options, DSUs, RSAs and PSAs:

	Nine months ended September 30									
	2019					2018				
	Stock option	DSU	RSA	PSA	Total	Stock options	DSU	RSA	PSA	Total
Non cash share-based compensation	\$ 2,865	\$ —	\$ 1,087	\$ 420	\$ 4,372	\$ 2,595	\$ —	\$ 1,255	\$ 128	\$ 3,978
Cash share-based compensation	—	(243)	—	—	(243)	—	359	—	—	359
Total share-based compensation	\$ 2,865	\$(243)	\$ 1,087	\$ 420	\$ 4,129	\$ 2,595	\$ 359	\$ 1,255	\$ 128	\$ 4,337
Capitalized share-based compensation	\$ 925	\$ —	\$ 322	\$ 124	\$ 1,371	\$ 834	\$ —	\$ 401	\$ 39	\$ 1,274

During both the nine months ended September 30, 2019 and September 30, 2018, there were no cash settled DSUs.

17. Risk management activities

(a) Financial instruments

The Company's financial instruments recognized on the statement of financial position consists of cash and cash equivalents, accounts receivable and prepaid expenses, financial derivative contracts, accounts payable and accrued liabilities, accrued environmental remediation liabilities, compensation liabilities, long-term debt and senior unsecured notes. The carrying value of the long-term debt approximates its fair value

as it bears interest at market rates. Except for the financial derivative contracts and compensation liabilities, which are recorded at fair value, carrying values reflect the current fair value of the Company's financial instruments due to their short-term maturities. The estimated fair values of recognized financial instruments have been determined based on quoted market prices when available, or third-party models and valuation methodologies that use observable market data.

The Company classifies fair value measurements according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's cash and cash equivalents are classified as Level 1 and financial derivative contracts as Level 2. The Company uses third party models and valuation methodologies to determine the fair value of financial derivative contracts. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

(b) Financial assets and financial liabilities subject to offsetting

The following is a summary of the Company's financial assets and financial liabilities that are subject to offsetting:

	September 30, 2019			December 31, 2018		
	Gross financial assets	Gross financial liabilities	Net financial assets	Gross financial assets	Gross financial liabilities	Net financial assets
Current assets (liabilities)	\$ 35,904	\$ —	\$ 35,904	\$ 40,486	\$ —	\$ 40,486
Long-term assets (liabilities)	3,795	(3,168)	627	76,763	—	76,763
Net position	\$ 39,699	\$ (3,168)	\$ 36,531	\$ 117,249	\$ —	\$ 117,249

(c) Risk management contracts

The following is a reconciliation of movement in the fair value of financial derivative contracts:

	September 30, 2019	December 31, 2018
Fair value of contracts, beginning of year	\$ 117,249	\$ 23,854
Change in the fair value of contracts in the period	(67,294)	55,060
Fair value of contracts realized in the period	(13,424)	38,335
Fair value of contracts, end of period	\$ 36,531	\$ 117,249

The following is a summary of the financial derivatives as at September 30, 2019:

Term ⁽¹⁾	WTI fixed price swap	
	Bbls/d	Cdn\$/Bbl
2019 remainder	8,597	76.38
2020	6,099	76.28

⁽¹⁾ Table presented as weighted average volumes and prices.

Term ⁽¹⁾	C\$ WTI 3 Way Collar			
	Bbls/d	Cdn\$/Bbl	Cdn\$/Bbl	Cdn\$/Bbl
2019 remainder	5,165	67.63	81.55	88.94
2020	3,449	66.59	80.51	87.71

⁽¹⁾ Table presented as weighted average volumes and prices.

Term ⁽¹⁾	AECO-NYMEX basis swap		Chicago-NYMEX basis swap		Malin-NYMEX basis swap		AECO-Malin basis swap		Dawn-NYMEX basis swap	
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu
2019 remainder	17,500	(0.94)	13,315	(0.25)	13,370	(0.42)	10,000	0.68	6,630	(0.26)
2020	47,500	(0.96)	15,000	(0.25)	11,667	(0.51)	8,333	0.68	10,000	(0.26)
2021	95,000	(0.98)	15,000	(0.24)	20,000	(0.66)	—	—	10,000	(0.26)
2022	95,000	(0.97)	12,493	(0.24)	16,658	(0.66)	—	—	8,329	(0.26)
2023	100,000	(1.01)	—	—	—	—	—	—	—	—
2024	100,000	(1.00)	—	—	—	—	—	—	—	—
2025	35,000	(1.00)	—	—	—	—	—	—	—	—

⁽¹⁾ Table presented as weighted average volumes and prices.

Term ⁽¹⁾	AECO fixed price swap		NYMEX fixed price swap		Dawn fixed price swap	
	GJ/d	Cdn\$/GJ	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu
2019 remainder	1,685	1.30	51,630	2.72	3,370	2.50
2020	—	—	48,757	2.67	—	—

⁽¹⁾ Table presented as weighted average volumes and prices.

Subsequent to September 30, 2019 the following is a summary of financial derivatives that have been entered into:

Term ⁽¹⁾	C\$ WTI 3 Way Collar			
	Bbls/d	Cdn\$/Bbl	Cdn\$/Bbl	Cdn\$/Bbl
2020	600	60.00	68.13	74.90

⁽¹⁾ Table presented as weighted average volumes and prices.

Term ⁽¹⁾	Dawn fixed price swap	
	MMbtu/d	US\$/MMbtu
2019 remainder	3,315	2.63
2020	1,243	2.63

⁽¹⁾ Table presented as weighted average volumes and prices.

(d) Physical delivery sales contracts

The following is a summary of the physical delivery sales contracts as at September 30, 2019:

Term ⁽¹⁾	Dawn fixed price swap		Dawn-NYMEX Basis	
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu
2019 remainder	3,370	2.50	6,630	(0.26)
2020	—	—	10,000	(0.26)
2021	—	—	10,000	(0.26)
2022	—	—	8,329	(0.26)

⁽¹⁾ Table presented as weighted average volumes and prices.

Term ⁽¹⁾	AECO fixed price swap	
	GJ/d	Cdn\$/GJ
2019 remainder	66,413	1.77
2020Q1	10,000	1.60
2020Q2	75,000	1.40
2020Q3	75,000	1.40
2020Q4	25,272	1.40

⁽¹⁾ Table presented as weighted average volumes and prices.

Subsequent to September 30, 2019 the following is a summary of the physical delivery sales contracts that have been entered into:

Term ⁽¹⁾	AECO fixed price swap		Dawn fixed price swap	
	GJ/d	Cdn\$/GJ	MMbtu/d	US\$/MMbtu
2019 remainder	6,739	2.15	3,315	2.62
2020	—	—	1,243	2.62

⁽¹⁾ Table presented as weighted average volumes and prices.

18. Financing costs

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Interest expense	\$ 7,563	\$ 5,257	\$ 21,773	\$ 21,932
Lease interest expense	905	—	1,049	—
Accretion of asset retirement obligations	519	439	1,458	1,236
Total financing costs	\$ 8,987	\$ 5,696	\$ 24,280	\$ 23,168

19. Supplemental cash flow information

The following table provides a detailed breakdown of certain line items contained within cash from operating and investing activities:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash provided by (used for):				
Accounts receivable and prepaid expenses	\$ (8,639)	\$ (19,992)	\$ (2,309)	\$ (19,237)
Other assets	211	228	(392)	635
Accounts payable and accrued liabilities	(14,338)	(22,230)	(8,728)	14,611
Total	\$ (22,766)	\$ (41,994)	\$ (11,429)	\$ (3,991)
Related to:				
Operating activities	\$ (10,245)	\$ (18,190)	\$ 1,434	\$ (9,580)
Investing activities	(12,521)	(23,804)	(12,863)	5,589
Total	\$ (22,766)	\$ (41,994)	\$ (11,429)	\$ (3,991)

20. Commitments

The following is a summary of the Company's commitments as at September 30, 2019:

	Total	2019	2020	2021	2022	2023	Thereafter
Transportation ⁽¹⁾	\$ 915,012	\$ 17,300	\$ 79,399	\$ 105,537	\$ 103,641	\$ 85,245	\$ 523,890
Processing ⁽¹⁾	1,072,241	11,923	54,938	76,081	90,199	90,783	748,317
Office lease ⁽²⁾	6,265	216	877	939	948	999	2,286
Total commitments ⁽³⁾	\$ 1,993,518	\$ 29,439	\$ 135,214	\$ 182,557	\$ 194,788	\$ 177,027	\$ 1,274,493

⁽¹⁾ Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$7.3 million at September 30, 2019 (December 31, 2018 - \$7.3 million).

⁽²⁾ Represents the undiscounted future commitments of variable operating expenses related to the Company's office leases.

⁽³⁾ Excludes commitments recognized within lease liabilities.