NUVISTA ENERGY LTD.

Condensed Statements of Financial Position
(Unaudited)

($Cdn thousands)		March 31 2020		December 31 2019
Assets				
Current assets				
Cash and cash equivalents	**$**	**—**	$	—
Accounts receivable and prepaid expenses		**55,148**		62,772
Financial derivative assets (note 16)		**76,503**		10,629
Other receivable (note 3)		**25,179**		10,301
		156,830		83,702
Exploration and evaluation assets (note 4)		**36,504**		27,947
Property, plant and equipment (note 5)		**1,291,023**		2,103,090
Right-of-use assets (note 6)		**91,339**		116,622
Total assets	**$**	**1,575,696**	$	2,331,361
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**117,851**	$	110,144
Current portion of lease liabilities (note 9)		**4,048**		3,416
Current portion of asset retirement obligations (note 10)		**5,170**		11,575
		127,069		125,135
Long-term debt (note 7)		**395,483**		306,274
Senior unsecured notes (note 8)		**216,987**		216,771
Other liabilities (note 15)		**283**		1,859
Lease liabilities (note 9)		**114,554**		115,891
Asset retirement obligations (note 10)		**115,670**		112,958
Financial derivative liabilities (note 16)		**43,917**		34,543
Deferred tax liability		**—**		69,174
		1,013,963		982,605
Shareholders' equity				
Share capital (note 11)		**1,218,365**		1,218,264
Contributed surplus		**59,703**		58,080
Retained earnings (deficit)		**(716,335)**		72,412
		561,733		1,348,756
Total liabilities and shareholders' equity	**$**	**1,575,696**	$	2,331,361

Subsequent events (notes 7,16)
Commitments (note 19)

See accompanying notes to the consolidated interim financial statements.

NUVISTA ENERGY LTD.

Condensed Statements of Loss and Comprehensive Loss
(Unaudited)

($Cdn thousands, except per share amounts)		Three months ended March 31 **2020**		2019
Revenues				
Petroleum and natural gas (note 13)	**$**	**127,152**	$	139,488
Royalties		**(9,512)**		(4,576)
Net revenue from petroleum and natural gas sales		**117,640**		134,912
Financial derivative contracts				
Realized gain on financial derivatives		**13,468**		2,707
Unrealized gain (loss) on financial derivatives		**56,501**		(66,904)
Net revenue from petroleum and natural gas sales and gains (losses) on financial derivatives		**187,609**		70,715
Expenses				
Operating		**48,191**		36,737
Transportation		**19,654**		17,908
General and administrative		**4,144**		4,217
Share-based compensation (note 15)		**(114)**		1,547
Financing costs (note 17)		**10,238**		7,464
Depletion, depreciation, amortization and impairment (note 5,6)		**960,079**		51,777
Exploration and evaluation (note 4)		**—**		977
Loss (gain) on property dispositions		**3,338**		(1,934)
		1,045,530		**118,693**
Loss before taxes		**(857,921)**		(47,978)
Deferred income tax recovery		**(69,174)**		(12,051)
Net loss and comprehensive loss	**$**	**(788,747)**	$	(35,927)
Net loss per share (note 12)				
Basic	**$**	**(3.50)**	$	(0.16)
Diluted	**$**	**(3.50)**	$	(0.16)

See accompanying notes to the consolidated interim financial statements.

NUVISTA ENERGY LTD.

Condensed Statements of Changes in Shareholders' Equity
(Unaudited)

	Three months ended March 31	
($Cdn thousands)	**2020**	2019
Share capital (note 11)		
Balance, January 1	**$ 1,218,264**	$ 1,216,067
Issued for cash on exercise of stock options	**—**	24
Contributed surplus transferred on exercise of stock options	**—**	8
Conversion of restricted share awards	**101**	147
Balance, end of period	**$ 1,218,365**	$ 1,216,246
Contributed surplus		
Balance, January 1	**$ 58,080**	$ 52,705
Share-based compensation	**1,724**	1,880
Transfer to share capital on exercise of stock options	**(101)**	(8)
Conversion of restricted share awards	**—**	(147)
Balance, end of period	**$ 59,703**	$ 54,430
Retained earnings (deficit)		
Balance, January 1	**$ 72,412**	$ 136,245
Net loss	**(788,747)**	(35,927)
Balance, end of period	**$ (716,335)**	$ 100,318
Total shareholders' equity	**$ 561,733**	$ 1,370,994

See accompanying notes to the consolidated interim financial statements.

NUVISTA ENERGY LTD.

Condensed Statements of Cash Flows
(Unaudited)

	Three months ended March 31	
($Cdn thousands)	**2020**	2019
Cash provided by (used in)		
Operating activities		
Net loss	**$ (788,747)**	$ (35,927)
Items not requiring cash from operations:		
Depletion, depreciation, amortization and impairment (notes 5,6)	**960,079**	51,777
Exploration and evaluation (note 4)	**—**	977
Loss (gain) on property dispositions (notes 4,5)	**3,338**	(1,934)
Share-based compensation (note 15)	**1,462**	1,420
Unrealized loss (gain) on financial derivatives	**(56,501)**	66,904
Deferred income tax recovery	**(69,174)**	(12,051)
Accretion (note 10)	**411**	488
Asset retirement expenditures (note 10)	**(9,734)**	(12,678)
Change in non-cash working capital (note 18)	**16,211**	(5,674)
	57,345	53,302
Financing activities		
Issue of share capital, net of share issue costs	**—**	24
Payment on lease liabilities	**(705)**	(143)
Increase of long-term debt	**89,209**	69,459
	88,504	69,340
Investing activities		
Property, plant and equipment expenditures (note 5)	**(128,666)**	(109,026)
Exploration and evaluation expenditures (note 4)	**(66)**	(1,794)
Other receivable expenditures	**(14,878)**	(24,499)
Property acquisitions	**—**	—
Proceeds on property dispositions	**—**	14
Change in non-cash working capital (note 18)	**(2,239)**	12,663
	(145,849)	(122,642)
Change in cash and cash equivalents	**—**	—
Cash and cash equivalents, beginning of period	**—**	—
Cash and cash equivalents, end of period	**$ —**	$ —
Cash interest paid	**$ 10,546**	$ 10,313

See accompanying notes to the consolidated interim financial statements.

Three months ended March 31, 2020 with comparative figures for 2019. 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 development, delineation, 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 and methods of computation as the annual financial statements for the year ended December 31, 2019. 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, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

During the three months ended March 31, 2020, the World Health Organization declared COVID-19 to be a pandemic. Responses to the spread of COVID-19 have resulted in a sudden decline in economic activity and resulted in a significant increase in economic uncertainty. In addition, oil prices have declined dramatically due to the global oil price war and decline in demand due to COVID-19. These events have resulted in a volatile and challenging economic environment which has adversely affected the Company's operational results and financial position. The current challenging economic climate may have significant adverse impacts on NuVista including, but not exclusively:

- material declines in revenue and cash flows;
- declines in revenue and operating activities could result in increased impairment charges, and restrictions in lending agreements and reduced capital programs;
- increased risk of non-performance by NuVista's purchasers which could materially increase the risk of non-payment of accounts receivable and customer defaults; and
- if the situation continues for prolonged periods it could have a material impact on profitability, liquidity, and in the longer term could risk the ability to continue as a going concern for exploration and production companies, including NuVista.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on NuVista is not known at this time.

Estimates and judgments made by management in the preparation of the interim financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.
These financial statements were approved and authorized for issuance by the Board of Directors on May 5, 2020.

3. Other receivable

The Company has entered into contracts for the construction of two Pipestone compressor stations, which secured third party ownership and funding of the assets. The other receivable balance of $25.2 million represents expenses incurred that have not yet been reimbursed related to these assets.

4. Exploration and evaluation assets

		March 31, 2020		December 31, 2019
Balance, January 1	**$**	**27,947**	$	30,165
Additions		**66**		7,173
Acquisitions [(1)]		**9,025**		—
Dispositions [(1)]		**(534)**		—
Capitalized share-based compensation (note 15)		**—**		333
Transfers to property, plant and equipment (note 5)		**—**		(6,056)
Expiries (exploration and evaluation expense)		**—**		(3,668)
Balance, end of period	**$**	**36,504**	$	27,947

[(1)] Non cash land swap.

5. Property, plant and equipment

		March 31, 2020		December 31, 2019
Cost				
Balance, January 1	**$**	**3,119,117**	$	2,779,988
Additions		**128,666**		302,808
Acquisitions [(1)]		**475**		—
Dispositions [(1)]		**(15,141)**		(6,237)
Capitalized share-based compensation (note 15)		**262**		1,471
Change in asset retirement obligations (note 10)		**5,630**		35,031
Transfers from exploration and evaluation assets (note 4)		**—**		6,056
Balance, end of period	**$**	**3,239,009**	$	3,119,117

[(1)] Non cash land swap.

		March 31, 2020		December 31, 2019
Accumulated depletion, depreciation and amortization				
Balance, January 1	**$**	**1,016,027**	$	799,862
Depletion, depreciation and amortization		**48,715**		216,165
Dispositions [(1)]		**(2,837)**		—
Impairments		**886,081**		—
Balance, end of period	**$**	**1,947,986**	$	1,016,027

[(1)] Non cash land swap.

		March 31, 2020		December 31, 2019
Carrying value				
Balance, January 1	**$**	**2,103,090**	$	1,980,126
Balance, end of period	**$**	**1,291,023**	$	2,103,090

At March 31, 2020, there were indicators of impairment identified in NuVista's Wapiti Montney CGU as a result of significant and sustained declines in forward commodity prices for condensate and oil and a reduction in market capitalization, as a result of the negative economic impacts of the COVID-19 pandemic and disputes between major oil producing countries. An impairment test was performed on property, plant and equipment ("PP&E") and right-of-use ("ROU") assets. For the March 31, 2020 test, PP&E and ROU assets were assessed based on the recoverable amount internally estimated using a value in use calculation based on expected future cash flows generated from proved and probable reserves using pre-tax discount rates ranging from 10% to 20%. For the three months ended March 31, 2020, total impairment charges of $909.3 million were recognized in NuVista's Montney CGU, with $886.1 million recognized on PP&E and $23.2 million recognized on ROU assets, which has been included in the depletion, depreciation, amortization and impairment expense. Additional impairment or reversal of impairment taken during the period may occur over the balance of 2020 as commodity prices and foreign exchange rates continue to fluctuate.

The following benchmark price forecasts[1] were used to calculate the recoverable amounts:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029[2]
WTI (US$/Bbl)	34.20	41.00	47.50	52.50	57.50	58.95	60.13	61.33	62.56	63.81
NYMEX (US$/MMBtu)	2.01	2.55	2.65	2.75	2.85	2.95	3.01	3.07	3.13	3.19
Exchange Rate (Cdn$/US$)	0.73	0.73	0.74	0.74	0.75	0.75	0.75	0.75	0.75	0.75

[1] GLJ Petroleum Consultants price forecast, effective April 1, 2020.
[2] 2030 and beyond commodity price forecasts are inflated at 2.0% per annum. In 2030 and beyond there is no escalation of exchange rates.

At December 31, 2019 there were indicators of impairment identified in NuVista's Wapiti Montney CGU. An impairment test was performed on property, plant and equipment assets, based on the recoverable amount estimated using a value in use calculation based on expected future cash flows generated from proved and probable reserves using pre-tax discount rates ranging from 10% to 17%, based on the independent external reserves report. No impairment was recognized at December 31, 2019, as the estimated recoverable amount of the Wapiti Montney CGU exceeded its respective carrying value.

6. Right-of-use assets

								March 31, 2020		**December 31, 2019**
		Office Leases		**Gas Transportation Lease**		**Gas Processing Lease**		**Total**		**Total**
Cost										
Balance, January 1	$	5,481	$	36,921	$	77,529	**$**	**119,931**	$	5,481
Additions		—		—		—		**—**		114,450
Balance, end of period	$	5,481	$	36,921	$	77,529	**$**	**119,931**	$	119,931
Accumulated depreciation and impairment										
Balance, January 1	$	793	$	803	$	1,713	**$**	**3,309**	$	—
Depreciation		198		602		1,285		**2,085**		3,309
Impairment (note 5)		—		7,487		15,711		**23,198**		—
Balance, end of period	$	991	$	8,892	$	18,709	**$**	**28,592**	$	3,309
Carrying value										
Balance, January 1	$	4,688	$	36,118	$	75,816	**$**	**116,622**	$	5,481
Balance, end of period	**$**	**4,490**	**$**	**28,029**	**$**	**58,820**	**$**	**91,339**	$	116,622

In accordance with the adoption of IFRS 16 - *Leases*, on January 1, 2019, the Company recognized right-of-use ("ROU") assets for our head office and field office leases.

During the year ended December 31, 2019, the Company entered into a contract for the construction of the Pipestone South compressor station, which secured third party ownership and funding of the asset. Under the terms of the contract, NuVista was compensated to complete the construction of the asset in exchange for entering into a long term commitment for NuVista operatorship and use of the compressor station. During the third quarter of 2019, the Company recognized ROU assets for a gas processing lease associated with the start up of the Pipestone South compressor, and a gas transportation lease associated with the pipeline that connects the Pipestone South compressor to the SemCAMS Wapiti plant.

7. Long-term debt

At March 31, 2020, the Company had a $550 million (December 31, 2019 - $550 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 three months ended March 31, 2020, borrowing costs averaged 3.7% (December 31, 2019 – 3.8%). 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 tenor of two years 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. Subsequent to quarter end, NuVista has applied for an Export Development Canada letter of credit guarantee product. If approved, it is anticipated that current and future letters of credit would be supported by Export Development Canada in this separate facility, further improving NuVista's liquidity and borrowing capacity on the credit facility.

Subsequent to March 31, 2020, NuVista requested and received an extension of the annual renewal date of the credit facility from April 30, 2020 to May 29, 2020 from the banking syndicate. At this time, there is no assurance the facility size will remain at $550 million. This extension was put in place to allow the banking syndicate extra time for assessment in light of the recent extreme market volatility, and to provide additional data on the wells recently brought online. This also allows the banks, and our industry in general, time to assess the still-emerging details of the various liquidity support programs announced by the Federal Government. NuVista expects to continue to have sufficient liquidity cushion once the credit facility redetermination is completed.

As at March 31, 2020, the Company had drawn $395.5 million on its credit facility (December 31, 2019 – $306.3 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 March 31, 2020, the Company was in compliance with all covenants.

8. 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.

9. Lease Liabilities

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

	March 31, 2020	December 31, 2019
Balance January 1	**$ 119,307**	$ 5,481
Additions [1]	**—**	114,450
Lease interest expense	**2,570**	3,631
Payment of lease liabilities	**(3,275)**	(4,255)
Balance, end of period	**$ 118,602**	**$ 119,307**
Current portion of lease liabilities	**$ 4,048**	$ 3,416
Non current portion of lease liabilities	**$ 114,554**	$ 115,891

[1] The incremental borrowing rate used to determine the lease liabilities for the gas transportation and processing commitments added in the year was 11% and 8%, respectively.

The following table details the undiscounted cash flows and contractual maturities of NuVista's lease liabilities, as at March 31, 2020:

	March 31, 2020	December 31, 2019
Less than 1 year	**$ 14,040**	$ 13,623
1-3 years	**43,697**	44,954
4-5 years	**28,857**	29,093
After 5 years	**122,717**	$ 124,917
Total undiscounted future lease payments	**$ 209,311**	$ 212,587
Amounts representing lease interest expense over the term of the lease	**(90,709)**	(93,280)
Present value of net lease payments	**$ 118,602**	$ 119,307

10. Asset retirement obligations

	March 31, 2020	December 31, 2019
Balance, January 1	$ 124,533	$ 102,703
Accretion expense	411	2,070
Liabilities incurred	2,386	3,831
Liabilities disposed	—	(888)
Change in estimates	3,707	36,194
Change in discount rate	(463)	(4,994)
Liabilities settled	(9,734)	(14,383)
Balance, end of period	$ 120,840	$ 124,533
Expected to be incurred within one year	$ 5,170	$ 11,575
Expected to be incurred beyond one year	$ 115,670	$ 112,958

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 March 31, 2020, the estimated total undiscounted, uninflated amount of cash flows required to settle the asset retirement obligations is $129.7 million (December 31, 2019 – $133.8 million), of which 40% is estimated to be incurred within the next 10 years. The Bank of Canada's long-term risk-free bond rate of 1.3% (December 31, 2019 – 1.8%) and an inflation rate of 0.9% (December 31, 2019 – 1.4%) were used to calculate the net present value of the asset retirement obligations. The decrease in the ARO liability is due primarily to liabilities settled in the first quarter, offset by liabilities added for new wells drilled and increases in abandonment cost estimates for certain wells in our non core northwest Alberta area.

11. Share capital

Common shares

	March 31, 2020		December 31, 2019	
	Number	Amount	Number	Amount
Balance, January 1	225,591,725	$1,218,264	225,306,055	$ 1,216,067
Issued for cash on exercise of stock options	—	—	10,600	45
Contributed surplus transferred on exercise of stock options	—	—	—	15
Conversion of restricted share awards	8,000	101	274,009	2,129
Conversion of performance share awards	—	—	1,061	8
Balance, end of period	225,599,725	$1,218,365	225,591,725	$ 1,218,264

12. Earnings (loss) per share

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

	Three months ended March 31	
(thousands of shares)	2020	2019
Weighted average common shares outstanding		
Basic	225,592	225,327
Diluted	225,592	225,327

For the three months ended March 31, 2020, share awards are determined to be anti-dilutive.

13. 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 March 31	
	2020	2019
Natural gas revenue [1]	**$ 41,983**	$ 56,257
Condensate & oil revenue [3]	**80,331**	73,299
NGL revenue [2,3]	**4,838**	9,932
Total petroleum and natural gas revenue	**$ 127,152**	$ 139,488

(1) Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the three months ended March 31, 2020, our physical delivery sales contracts resulted in a loss of $33.0 thousand (2019 – $0.6 million loss).
(2) Includes butane, propane, ethane and an immaterial amount of sulphur revenue.
(3) Effective January 1, 2020, pipeline tariffs of $7.0 million previously reported net of the selling price have been included within condensate, oil, and NGL revenue. Prior year comparatives have been corrected in the amount of $5.4 million to conform with current year presentation.

A breakdown of natural gas revenue is as follows:

		Three months ended March 31	
		2020	2019
Natural gas revenue - AECO reference price [1]	**$**	**35,805**	$ 27,294
Heat/value adjustment [2]		**2,645**	2,347
Transportation revenue [3]		**7,029**	7,289
Natural gas market diversification revenue		**(3,463)**	19,975
AECO physical delivery price risk management gains [4]		**(33)**	-648
Total natural gas revenue	**$**	**41,983**	$ 56,257

[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 March 31, 2020 is $32.5 million (December 31, 2019 - $55.0 million) of accrued petroleum and natural gas revenue related to deliveries for periods prior to the reporting date.

14. 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 March 31, 2020, the Company's net debt was 3.2 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 March 31	
		2020	2019
Cash provided by operating activities	**$**	**57,345**	$ 53,302
Asset retirement expenditures		**9,734**	12,678
Change in non-cash working capital		**(16,211)**	5,674
Adjusted funds flow [1]	**$**	**50,868**	$ 71,654

[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:

	March 31, 2020	December 31, 2019
Basic common shares outstanding	**225,600**	225,592
Share price(1)	**0.45**	3.19
Total market capitalization	**101,520**	719,638
Cash and cash equivalents, accounts receivable and prepaid expenses	**(55,148)**	(62,772)
Other receivable	**(25,179)**	(10,301)
Accounts payable and accrued liabilities	**117,851**	110,144
Long-term debt (credit facility)	**395,483**	306,274
Senior unsecured notes	**216,987**	216,771
Other liabilities	**283**	1,859
Net debt (2)	**650,277**	561,975
Annualized current quarter adjusted funds flow	**203,472**	280,320
Net debt to annualized current quarter adjusted funds flow	**3.2**	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.

15. 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 March 31, 2020 is 8.4 million. The following continuity table summarizes the stock option activity:

	March 31, 2020		December 31, 2019	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, January 1	**7,726,300**	**$ 5.76**	6,859,491	$ 6.78
Granted	—	—	1,796,148	3.01
Exercised	—	—	(10,600)	4.25
Forfeited	—	—	(151,884)	6.81
Expired	**(189,205)**	**6.46**	(766,855)	8.28
Balance, end of period	**7,537,095**	**$ 5.74**	7,726,300	$ 5.76
Weighted average share price on date of exercise	—	**$ —**	10,600	$ 4.95

The following table summarizes stock options outstanding and exercisable under the plan at March 31, 2020:

	Options outstanding			Options exercisable	
Range of exercise price	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$2.36 to $4.99	3,800,594	3.3	$ 3.74	910,975	$ 4.36
$5.00 to $9.74	3,736,501	1.6	7.77	2,862,878	7.53
$2.36 to $9.74	**7,537,095**	**2.4**	**$ 5.74**	**3,773,853**	**$ 6.77**

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:

	March 31, 2020	December 31, 2019
Risk-free interest rate (%)	—	1.51
Expected volatility (%)	—	51
Expected life (years)	—	4.5
Forfeiture rate (%)	—	11
Fair value at grant date ($ per option)	—	1.29

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 as at March 31, 2020 is 3,750,000 of which 892,801 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:

	March 31, 2020	December 31, 2019
Balance, January 1	**965,075**	538,520
Settled	**(8,000)**	(274,009)
Granted	**7,264**	722,709
Forfeited	**—**	(22,145)
Balance, end of period	**964,339**	965,075

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:

	March 31, 2020	December 31, 2019
Balance, January 1	**1,043,923**	279,429
Settled	**—**	(1,061)
Granted	**3,113**	773,842
Forfeited	**—**	(8,287)
Balance, end of period	**1,047,036**	1,043,923

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:

	March 31, 2020	December 31, 2019
Balance, January 1	**582,594**	338,427
Granted	**—**	244,167
Balance, end of period	**582,594**	582,594

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

	March 31, 2020	December 31, 2019
Balance, January 1	**$ 1,859**	$ 1,381
Change in accrued compensation liabilities	**(1,576)**	478
Balance, end of period	**$ 283**	$ 1,859

Compensation liability resulting from DSUs granted in the three months ended March 31, 2020, decreased due to a decrease in the closing share price used to value the liability at the end of the period, from $3.19 at December 31, 2019 to $0.45 at March 31, 2020.

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

	Three months ended March 31									
	2020					2019				
	Stock options	**DSU**	**RSA**	**PSA**	**Total**	Stock options	DSU	RSA	PSA	Total
Non cash share-based compensation	**$ 793**	**$ —**	**$ 399**	**$ 270**	**$ 1,462**	$ 961	$ —	$ 351	$ 108	$ 1,420
Cash share-based compensation	**—**	**(1,576)**	**—**	**—**	**(1,576)**	—	127	—	—	127
Total share-based compensation	**$ 793**	**$ (1,576)**	**$ 399**	**$ 270**	**$ (114)**	$ 961	$ 127	$ 351	$ 108	$ 1,547
Capitalized share-based compensation	**$ 143**	**$ —**	**$ 72**	**$ 47**	**$ 262**	$ 322	$ —	$ 106	$ 32	$ 460

During both the three months ended March 31, 2020 and March 31, 2019, there were no cash settled DSUs.

16. 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:

	March 31, 2020			December 31, 2019		
	Gross financial assets	**Gross financial liabilities**	**Net financial assets**	Gross financial assets	Gross financial liabilities	Net financial assets
Current assets (liabilities)	**$ 76,503**	**$ —**	**$ 76,503**	$ 10,627	$ —	$ 10,627
Long-term assets (liabilities)	**—**	**(43,917)**	**(43,917)**	2	(34,543)	(34,541)
Net position	**$ 76,503**	**$ (43,917)**	**$ 32,586**	$ 10,629	$ (34,543)	$ (23,914)

(c) Risk management contracts

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

	March 31, 2020	December 31, 2019
Fair value of contracts, beginning of year	**$ (23,914)**	$ 117,249
Change in the fair value of contracts in the period	**69,968**	(123,782)
Fair value of contracts realized in the period	**(13,468)**	(17,381)
Fair value of contracts, end of period	**$ 32,586**	$ (23,914)

The following is a summary of the financial derivatives as at March 31, 2020:

	WTI fixed price swap		**WTI - Put Spreads**		
Term [(1)]	**Bbls/d**	**Cdn$/Bbl**	**Bbls/d**	**Cdn$/Bbl**	**Cdn$/Bbl**
2020 Remainder	5,799	76.24	1,867	69.42	84.67

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

Term (1)		WTI 3 Way Collar		
	Bbls/d	Cdn$/Bbl	Cdn$/Bbl	Cdn$/Bbl
2020 Remainder	2,416	62.65	73.64	81.20

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

Term (1)	AECO-NYMEX basis swap		AECO-NYMEX basis buyback		Chicago-NYMEX basis swap		Malin-NYMEX basis swap	
	MMbtu/d	US$/ MMbtu	MMbtu/d	US$/ MMbtu	MMbtu/d	US$/ MMbtu	MMbtu/d	US$/ MMbtu
2020 Remainder	47,500	(0.96)	—	—	15,000	(0.25)	12,218	(0.52)
2021	95,000	(0.98)	(60,000)	(0.82)	15,000	(0.24)	20,000	(0.66)
2022	95,000	(0.97)	(60,000)	(0.82)	12,493	(0.24)	16,658	(0.66)
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-Malin basis swap		Dawn-NYMEX basis swap	
	MMbtu/d	US$/MMbtu	MMbtu/d	US$/MMbtu
2020 Remainder	7,782	0.68	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)	NYMEX fixed price swap	
	MMbtu/d	US$/MMbtu
April 2020 - October 2020	60,000	2.67

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

Subsequent to March 31, 2020 the following is a summary of financial derivatives that have been entered into:

Term (1)	WTI fixed price swap	
	Bbls/d	Cdn$/Bbl
May 2020	4,000	28.41
June 2020	1,000	32.78

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

(b) Physical delivery sales contracts

The Company enters into physical delivery sales contracts to manage commodity price risk. These contracts are not considered to be derivatives and therefore not recorded at fair value. They are considered sales contracts and are recorded at cost at the time of transaction.

The following is a summary of the physical delivery sales contracts in place as at March 31, 2020:

	AECO fixed price swap		**Dawn-NYMEX Basis**	
Term [(1)]	**GJ/d**	**Cdn$/GJ**	**MMbtu/d**	**US$/MMbtu**
April 2020 - October 2020	75,000	1.40	—	—
2020 Remainder	—	—	10,000	(0.26)
2021	—	—	10,000	(0.26)
2022	—	—	8,329	(0.26)

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

17. Financing costs

	Three months ended March 31	
	2020	2019
Interest expense	**$ 7,257**	$ 6,903
Lease interest expense	**2,570**	73
Accretion of asset retirement obligations	**411**	488
Total financing costs	**$ 10,238**	$ 7,464

18. 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 March 31	
	2020	2019
Cash provided by (used for):		
Accounts receivable and prepaid expenses	**$ 7,459**	$ (2,299)
Other assets	**165**	(846)
Accounts payable and accrued liabilities	**6,348**	10,134
Total	**$ 13,972**	$ 6,989
Related to:		
Operating activities	**$ 16,211**	$ (5,674)
Investing activities	**(2,239)**	12,663
	$ 13,972	$ 6,989

19. Commitments

The following is a summary of the Company's commitments as at March 31, 2020:

	Total	2020	2021	2022	2023	2024	Thereafter
Transportation [1]	**$ 949,068**	$ 65,030	$ 115,404	$ 111,527	$ 88,906	$ 82,018	$ 486,183
Processing [1]	**1,064,634**	44,231	75,873	85,277	91,759	89,686	677,808
Office lease [2]	**5,831**	661	938	948	999	857	1,428
Total commitments [3]	**$ 2,019,533**	$ 109,922	$ 192,215	$ 197,752	$ 181,664	$ 172,561	$ 1,165,419

[1] Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $7.3 million at March 31, 2020 (December 31, 2019 - $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.