NuVista Energy Ltd

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at, and for the three and six months ended:
June 30, 2021 and 2020

NUVISTA ENERGY LTD.
Consolidated Statements of Financial Position
(Unaudited)

($Cdn thousands)	Note		June 30 2021		December 31 2020
Assets					
Current assets					
Accounts receivable and prepaid expenses		$	67,985	$	53,093
Other receivable	3		2,395		5,471
			70,380		58,564
Exploration and evaluation assets	4		29,316		34,368
Property, plant and equipment	5		1,928,361		1,947,998
Right-of-use assets	6		112,416		116,900
Total assets		$	2,140,473	$	2,157,830
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	107,493	$	75,142
Current portion of lease liabilities	10		5,033		3,928
Current portion of asset retirement obligations	11		6,000		6,275
Financial derivative liabilities	17		66,933		23,317
			185,459		108,662
Long-term debt	8		286,024		362,673
Senior unsecured notes	9		218,170		217,724
Other liabilities	16		6,007		1,860
Lease liabilities	10		119,522		122,031
Asset retirement obligations	11		107,102		133,690
Financial derivative liabilities	17		41,422		41,621
Deferred tax liability			12,657		12,675
			976,363		1,000,936
Shareholders' equity					
Share capital	12		1,222,161		1,220,032
Contributed surplus			62,969		62,329
Retained earnings (deficit)			(121,020)		(125,467)
			1,164,110		1,156,894
Total liabilities and shareholders' equity		$	2,140,473	$	2,157,830
Subsequent events	9,17				
Commitments	20				

See accompanying notes to the consolidated interim financial statements.

NUVISTA ENERGY LTD.

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

		Three months ended June 30		Six months ended June 30	
($Cdn thousands, except per share amounts)	Note	**2021**	2020	**2021**	2020
Revenues					
Petroleum and natural gas sales	14	**$ 187,925**	$ 67,399	**$ 339,334**	$ 194,552
Royalties		**(10,473)**	(507)	**(21,254)**	(10,019)
		177,452	66,892	**318,080**	184,533
Realized gain (loss) on financial derivatives		**(28,697)**	27,043	**(49,773)**	40,511
Unrealized gain (loss) on financial derivatives		**(25,284)**	(49,362)	**(43,417)**	7,138
Other income	11	**27**	—	**886**	—
		123,498	44,573	**225,776**	232,182
Expenses					
Operating		**49,397**	44,762	**95,264**	92,953
Transportation		**25,494**	20,167	**46,415**	39,821
General and administrative		**5,223**	3,173	**10,227**	7,318
Share-based compensation	16	**3,180**	1,702	**6,586**	1,588
Financing costs	18	**11,641**	10,743	**24,645**	20,981
Depletion, depreciation, amortization and impairment	5,6	**44,414**	45,026	**73,585**	1,005,105
Loss (gain) on property dispositions	7	**—**	(578)	**(35,375)**	2,759
		139,349	**124,995**	**221,347**	**1,170,525**
Earnings (loss) before taxes		**(15,851)**	(80,422)	**4,429**	(938,343)
Deferred income tax recovery		**(4,910)**	—	**(18)**	(69,174)
Net earnings (loss) and comprehensive income (loss)		**$ (10,941)**	$ (80,422)	**$ 4,447**	$ (869,169)
Net earnings (loss) per share	13				
Basic		**$ (0.05)**	$ (0.36)	**$ 0.02**	$ (3.85)
Diluted		**$ (0.05)**	$ (0.36)	**$ 0.02**	$ (3.85)

See accompanying notes to the consolidated interim financial statements.

NUVISTA ENERGY LTD.

Consolidated Statements of Changes in Shareholders’ Equity
(Unaudited)

		Six months ended June 30	
($Cdn thousands)	Note	**2021**	2020
Share capital	12		
Balance, January 1		**$ 1,220,032**	$ 1,218,264
Issued for cash on exercise of stock options		**28**	—
Contributed surplus transferred on exercise of stock options		**13**	—
Conversion of restricted share awards		**937**	1,192
Conversion of performance share awards		**1,151**	—
Balance, end of period		**$ 1,222,161**	$ 1,219,456
Contributed surplus			
Balance, January 1		**$ 62,329**	$ 58,080
Share-based compensation		**2,741**	3,350
Transfer to share capital on exercise of stock options		**(13)**	—
Conversion of restricted share awards		**(937)**	(1,192)
Conversion of performance share awards		**(1,151)**	—
Balance, end of period		**$ 62,969**	$ 60,238
Retained earnings (deficit)			
Balance, January 1		**$ (125,467)**	$ 72,412
Net earnings (loss)		**4,447**	(869,169)
Balance, end of period		**$ (121,020)**	$ (796,757)
Total shareholders’ equity		**$ 1,164,110**	$ 482,937

See accompanying notes to the consolidated interim financial statements.

NUVISTA ENERGY LTD.
Consolidated Statements of Cash Flows
(Unaudited)

($Cdn thousands)	Note	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Cash provided by (used in)					
Operating activities					
Net earnings (loss)		$ (10,941)	$ (80,422)	$ 4,447	$ (869,169)
Items not requiring cash from operations:					
Other income	11	(27)	—	(886)	—
Depletion, depreciation, amortization and impairment	5,6	44,414	45,026	73,585	1,005,105
Loss (gain) on property dispositions	7	—	(578)	(35,375)	2,759
Share-based compensation	16	1,146	1,428	2,364	2,890
Unrealized loss (gain) on financial derivatives		25,284	49,362	43,417	(7,138)
Deferred income tax expense (recovery)		(4,910)	—	(18)	(69,174)
Accretion	11	486	299	1,175	710
Asset retirement expenditures	11	(265)	(240)	(4,098)	(9,974)
Change in non-cash working capital	19	3,170	(6,320)	19,897	9,891
		58,357	8,555	104,508	65,900
Financing activities					
Issue of share capital, net of share issue costs		28	—	28	—
Payment on lease liabilities		(1,170)	(716)	(1,404)	(1,421)
Increase (decrease) of long-term debt		(13,711)	33,287	(76,649)	122,496
		(14,853)	32,571	(78,025)	121,075
Investing activities					
Property, plant and equipment expenditures	5	(44,339)	(20,550)	(125,285)	(149,216)
Exploration and evaluation expenditures	4	(5)	(215)	(7)	(281)
Other receivable expenditures		1,116	2,600	3,076	(12,278)
Proceeds on property dispositions		—	—	93,578	—
Change in non-cash working capital	19	(276)	(22,961)	2,155	(25,200)
		(43,504)	(41,126)	(26,483)	(186,975)
Change in cash and cash equivalents		—	—	—	—
Cash and cash equivalents, beginning of period		—	—	—	—
Cash and cash equivalents, end of period		$ —	$ —	$ —	$ —
Cash interest paid		$ 2,874	$ 3,484	$ 14,189	$ 14,030

See accompanying notes to the consolidated interim financial statements.

Three and six months ended June 30, 2021 with comparative figures for 2020. All tabular amounts are in thousands of Canadian dollars, except share and per share amounts, unless otherwise stated.

1. Corporate information

NuVista Energy Ltd. and its subsidiary (together "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 consolidated 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, 2020. 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, 2020, 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.

In March 2020, the World Health Organization declared COVID-19 to be a pandemic. Responses to the spread of COVID-19 resulted in a sudden decline in economic activity and resulted in a significant increase in economic uncertainty. In addition, oil prices declined dramatically due to the global oil price war and decline in demand due to COVID-19. Global oil demand has improved steadily in the latter half of 2020 and the first half of 2021 as economies have begun to reopen and the government has approved the rollout of COVID-19 vaccines. Although the government authorities are easing restrictions, there is no certainty when demand levels will return to pre-COVID levels and therefore the situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and financial effect on NuVista is not known at this time. These events have resulted in a volatile and challenging economic environment which adversely affected the Company's operational results and financial position in the prior year.

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.

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 August 3, 2021.

3. Other receivable

The Company has entered into a contract for the construction of a Pipestone compressor station, which secured third party ownership and funding of the asset. The other receivable balance of $2.4 million represents expenses incurred that have not yet been reimbursed related to this asset.

4. Exploration and evaluation assets

	Note	June 30, 2021	December 31, 2020
Balance, January 1		$ 34,368	$ 27,947
Additions		7	329
Acquisitions [(1)]		—	10,625
Dispositions [(1)]		(4,912)	(533)
Transfers to property, plant and equipment	5	(147)	(630)
Expiries (exploration and evaluation expense)		—	(3,370)
Balance, end of period		$ 29,316	$ 34,368

[(1)] Non cash land swaps included in acquisitions and dispositions during the year ended December 31, 2020.

5. Property, plant and equipment

	Note	June 30, 2021	December 31, 2020
Cost			
Balance, January 1		$ 3,311,998	$ 3,119,117
Additions		125,285	180,113
Acquisitions [(1)]		—	875
Dispositions [(1)]		(94,385)	(15,142)
Capitalized share-based compensation	16	377	779
Change in asset retirement obligations	11	(5,503)	25,626
Transfers from exploration and evaluation assets	4	147	630
Balance, end of period		$ 3,337,919	$ 3,311,998

[(1)] Non cash land swaps included in acquisitions and dispositions during the year ended December 31, 2020.

	June 30, 2021	December 31, 2020
Accumulated depletion, depreciation, amortization and impairment		
Balance, January 1	$ 1,364,000	$ 1,016,027
Depletion, depreciation and amortization	69,101	162,954
Dispositions	(23,543)	(2,837)
Impairment	—	187,856
Balance, end of period	$ 1,409,558	$ 1,364,000

	June 30, 2021	December 31, 2020
Carrying value		
Balance, January 1	$ 1,947,998	$ 2,103,090
Balance, end of period	$ 1,928,361	$ 1,947,998

At June 30, 2021, there were no indicators of impairment of reversal of impairment identified on any of the Company's CGU's within property, plant & equipment and an impairment test was not performed.

At December 31, 2020, there were indicators of reversal of impairment identified in NuVista's Montney CGU as a result of improved forward commodity prices for natural gas and condensate and oil, and reduction of future development costs associated with the reserves at December 31, 2020. An impairment test was performed on property, plant and equipment ("PP&E") and right-of-use ("ROU") assets. For the December 31, 2020 test, PP&E and ROU assets were assessed based on the recoverable amount estimated using a value in use calculation based on expected future cash flows generated from proved and proved plus probable reserves using pre-tax discount rates ranging from 10% to 20% based on the independent third party external reserves report. A total impairment recovery of $720.2 million was recognized at December 31, 2020 in NuVista's Montney CGU, with $698.2 million recognized on PP&E and $22.0 million recognized on ROU assets, which has been included in the depletion, depreciation, amortization and impairment expense.

The initial impairment expense of $909 million on PP&E and ROU assets recognized at March 31, 2020, net of the impairment recovery of $720 million at December 31, 2020 on PP&E and ROU assets, resulted in a net impairment expense of $189 million recognized for the year ended December 31, 2020.

6. Right-of-use assets

	Office Leases	Gas Transportation Lease	Gas Processing Lease	June 30 2021 Total	December 31 2020 Total
Cost					
Balance, January 1	$ 5,481	$ 36,921	$ 86,356	**$ 128,758**	$ 119,931
Additions	—	—	—	**—**	8,827
Balance, end of period	$ 5,481	$ 36,921	$ 86,356	**$ 128,758**	$ 128,758
Accumulated depreciation					
Balance, January 1	$ 1,586	$ 3,210	$ 7,062	**$ 11,858**	$ 3,309
Depreciation	396	1,204	2,884	**4,484**	7,356
Impairment	—	—	—	**—**	1,193
Balance, end of period	$ 1,982	$ 4,414	$ 9,946	**$ 16,342**	$ 11,858
Carrying amount					
Balance, January 1	$ 3,895	$ 33,711	$ 79,294	**$ 116,900**	$ 116,622
Balance, end of period	**$ 3,499**	**$ 32,507**	**$ 76,410**	**$ 112,416**	$ 116,900

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 right of use 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 Energy Transfer Partners/SemCAMS Wapiti plant.

7. Property dispositions

	Three months ended June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Proceeds from dispositions	**$ —**	$ —	**$ 93,578**	$ 9,500
Exploration and evaluation disposed	**—**	—	**(4,912)**	(534)
Property, plant and equipment, net of accumulated DD&A disposed	**—**	—	**(70,842)**	(12,304)
Asset retirement obligations disposed	**—**	584	**17,551**	584
Working capital	**—**	(6)	**—**	(5)
Gain (loss) on dispositions	**$ —**	$ 578	**$ 35,375**	$ (2,759)

For the six months ended June 30, 2021, the Company disposed of properties for gross proceeds of $93.6 million. A gain on dispositions of $35.4 million was recorded in the period.

8. Long-term debt

At June 30, 2021, the Company had a $440 million (December 31, 2020 - $440 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 six months ended June 30, 2021, borrowing costs averaged 4.3% (December 31, 2020 – 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 with a maturity date of May 31, 2023 and is subject to an annual review by the lenders. During the revolving period, a review of the maximum borrowing amount occurs annually on or before May 31 and semi-annually on or before November 30. During the term period, no principal payments would be required until a year after the revolving period matures on May 31, 2023 in the event of a reduction or the credit facility not being renewed.

As at June 30, 2021, the Company had drawn $286.0 million on its term credit facility (December 31, 2020 – $362.7 million) and had outstanding letters of credit of $7.0 million which reduce the credit available on this 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 June 30, 2021, the Company was in compliance with all covenants.

During the third quarter of 2020, the Company established a $40 million unsecured letter of credit facility under Export Development Canada's ("EDC") Account Performance Security Guarantee ("APSG") program. In the second quarter of 2021 the letter of credit facility was reduced to $30 million. At June 30, 2021, the Company had outstanding letters of credit associated with the APSG of $17.6 million, leaving $12.4 million of credit available on this facility.

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 July 23, 2021, the Company issued $230.0 million aggregate principal amount of 7.875% senior unsecured notes due July 23, 2026 ("2026 Notes"). The 2026 Notes were issued at $989.89 expressed as a price per $1,000.00 principal amount. Interest is payable semi-annually in arrears. The 2026 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.

On July 27, 2021, the Company redeemed all of the Company's $220.0 million 2023 Notes at a redemption price of 101.625%, plus accrued and unpaid interest.

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:

		June 30, 2021		December 31, 2020
Balance, January 1	$	125,959	$	119,307
Additions [(1)]		—		8,827
Lease interest expense		6,676		11,294
Payment of leases		(8,080)		(13,469)
Balance, end of period	$	124,555	$	125,959
Current portion of lease liabilities	$	5,033	$	3,928
Non current portion of lease liabilities	$	119,522	$	122,031

[(1)] The incremental borrowing rates used to determine the lease liabilities for the office lease, gas transportation and processing commitments are 5.5%, 11.0% and 10.7%, respectively. (2020 - 5.5%, 11.0%, and 7.7% respectively)

The following table details the undiscounted cash flows and contractual maturities of NuVista's lease liabilities:

		June 30, 2021		December 31, 2020
Less than 1 year	$	18,052	$	17,176
1-3 years		53,802		54,194
4-5 years		34,531		34,532
After 5 years		126,289		134,851
Total undiscounted future lease payments	$	232,674	$	240,753
Amounts representing lease interest expense over the term of the lease		(108,119)		(114,794)
Present value of net lease payments	$	124,555	$	125,959

11. Asset retirement obligations

	June 30, 2021	December 31, 2020
Balance, January 1	**$ 139,965**	$ 124,533
Accretion expense	**1,175**	1,496
Liabilities incurred	**915**	3,191
Liabilities disposed	**(17,551)**	(584)
Change in estimates	**3,830**	7,129
Change in discount rate	**(10,248)**	15,306
Liabilities settled (cash)	**(4,098)**	(11,106)
Liabilities settled (non-cash) [1]	**(886)**	—
Balance, end of period	**$ 113,102**	$ 139,965
Expected to be incurred within one year	**$ 6,000**	$ 6,275
Expected to be incurred beyond one year	**$ 107,102**	$ 133,690

[1] Liabilities settled (non-cash) of $0.9 million (2020 - nil) were funded by payments made directly to NuVista's service providers from the Alberta Site Rehabilitation program ("SRP") with respect to approved abandonment and reclamation expenditures. These amounts have been recorded as "Other Income".

The Company's asset retirement obligations are based on estimated costs to reclaim and abandon ownership interests in oil, condensate and natural gas assets including well sites, gathering systems and processing facilities. At June 30, 2021, the estimated total undiscounted, uninflated amount of cash flows required to settle the asset retirement obligations is $114.5 million (December 31, 2020 – $132.8 million), of which 30% is estimated to be incurred within the next 10 years. The Government of Canada benchmark long-term risk-free bond rate of 1.8% (December 31, 2020 – 1.2%) and an inflation rate of 1.7% (December 31, 2020 – 1.5%) were used to calculate the net present value of the asset retirement obligations. The inflation rate was determined using the Fisher equation, which is calculated as the difference between the Government of Canada long-term risk free rate bond rate of 1.8% (December 31, 2020 - 1.2%) and the real rate of interest of 0.11% (December 31, 2020 - (0.28)%).

12. Share capital

Common shares

	June 30, 2021		December 31, 2020	
	Number	**Amount**	Number	Amount
Balance, January 1	**225,836,865**	**$ 1,220,032**	225,591,725	$ 1,218,264
Issued for cash on exercise of stock options	**—**	**28**	—	—
Contributed surplus transferred on exercise of stock options	**17,846**	**13**	—	—
Conversion of restricted share awards	**263,285**	**937**	245,140	1,768
Conversion of performance share awards	**138,501**	**1,151**	—	—
Balance, end of period	**226,256,497**	**$ 1,222,161**	225,836,865	$ 1,220,032

13. Earnings (loss) per share

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

	Three months ended June 30		Six months ended June 30	
(thousands of shares)	**2021**	2020	**2021**	2020
Weighted average common shares outstanding				
Basic	**226,045**	225,652	**225,944**	225,622
Diluted	**226,045**	225,652	**231,027**	225,622

For three months ended June 30, 2021, as well as the three and six months ended June 30, 2020, share awards are determined to be anti-dilutive.

14. Petroleum and natural gas revenues

NuVista produces natural gas, condensate, oil and NGLs from its assets in the 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 June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Natural gas revenue [1]	**$ 56,456**	$ 33,657	**$ 113,974**	$ 75,641
Condensate & oil revenue	**117,160**	29,080	**197,690**	109,411
NGL revenue [2]	**14,309**	4,662	**27,670**	9,500
Total petroleum and natural gas revenue	**$ 187,925**	$ 67,399	**$ 339,334**	$ 194,552

[1] Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the three and six months ended June 30, 2021, our physical delivery sales contracts resulted in a loss of $0.2 million and a gain of $36.0 thousand (2020 – losses of $3.1 million and $3.2 million).
[2] Includes butane, propane, ethane and an immaterial amount of sulphur revenue.

A breakdown of natural gas revenue is as follows:

	Three months ended June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Natural gas revenue - AECO reference price [1]	**$ 47,218**	$ 32,746	**$ 91,136**	$ 68,551
Heat/value adjustment [2]	**4,801**	2,706	**8,557**	5,351
Transportation revenue [3]	**8,705**	6,970	**17,302**	13,999
Natural gas market diversification loss	**(4,077)**	(5,618)	**(3,057)**	(9,080)
AECO physical delivery price risk management gains (losses) [4]	**(191)**	(3,147)	**36**	(3,180)
Total natural gas revenue	**$ 56,456**	$ 33,657	**$ 113,974**	$ 75,641

(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 June 30, 2021 is $65.5 million (December 31, 2020 - $44.0 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.

As a result of the COVID-19 pandemic, NuVista's net debt to adjusted funds flow ratio grew beyond the normal target range of 1.5 x +/- 0.5 x. To ensure lower future debt levels, the Company has adjusted the target to below 1.0x. 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 June 30, 2021, the Company's net debt was 2.5 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 and asset retirement expenditures, 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 June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Cash provided by operating activities	**$ 58,357**	$ 8,555	**$ 104,508**	$ 65,900
Asset retirement expenditures	**265**	240	**4,098**	9,974
Change in non-cash working capital	**(3,170)**	6,320	**(19,897)**	(9,891)
Adjusted funds flow [1]	**$ 55,452**	$ 15,115	**$ 88,709**	$ 65,983

[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 and other liabilties. 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:

	June 30, 2021	December 31, 2020
Basic common shares outstanding	**226,256**	225,837
Share price[1]	**3.98**	0.94
Total market capitalization	**900,499**	212,287
Cash and cash equivalents, accounts receivable and prepaid expenses	**(67,985)**	(53,093)
Other receivable	**(2,395)**	(5,471)
Accounts payable and accrued liabilities	**107,493**	75,142
Long-term debt (credit facility)	**286,024**	362,673
Senior unsecured notes	**218,170**	217,724
Other liabilities	**6,007**	1,860
Net debt [2]	**547,314**	598,835
Annualized current quarter adjusted funds flow	**221,808**	197,596
Net debt to annualized current quarter adjusted funds flow	**2.5**	3.0

[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 June 30, 2021 is 9.3 million.

The following continuity table summarizes the stock option activity:

	June 30, 2021		December 31, 2020	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, January 1	**8,054,966**	**$ 4.30**	7,726,300	$ 5.76
Granted	**668,448**	**2.62**	2,033,034	0.82
Exercised	**(17,846)**	**1.54**	—	—
Forfeited	**(70,523)**	**4.13**	(290,817)	5.68
Expired	**(687,891)**	**6.71**	(1,413,551)	6.96
Balance, end of period	**7,947,154**	**$ 3.96**	8,054,966	$ 4.30

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2021:

	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
$0.79 to $1.99	1,989,789	3.7	$ 0.82	210,909	$ 0.79
$2.00 to $3.99	2,469,264	3.1	2.93	923,586	3.26
$4.00 to $5.99	1,485,714	1.9	4.46	992,147	4.46
$6.00 to $7.99	1,000,386	0.8	6.97	997,054	6.97
$8.00 to $9.43	1,002,001	1.4	8.97	1,002,001	8.97
$0.79 to $9.43	**7,947,154**	**2.5**	**$ 3.96**	**4,125,697**	**$ 5.71**

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:

	June 30, 2021	December 31, 2020
Risk-free interest rate (%)	**0.82**	0.37
Expected volatility (%)	**79**	77
Expected life (years)	**4.5**	4.5
Forfeiture rate (%)	**10**	10
Fair value at grant date ($ per option)	**1.58**	0.48

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 10,100,000 of which 2,156,107 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:

	June 30, 2021	December 31, 2020
Balance, January 1	2,407,697	965,075
Settled - issuance of shares from treasury	(267,912)	(245,140)
Settled - cash payment [1]	(10,961)	—
Granted	455,577	1,746,216
Forfeited	(26,376)	(58,454)
Balance, end of period	2,558,025	2,407,697

[1] Awards under share based plans elected by the Company to be settled with cash and not the issuance of shares from treasury.

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:

	June 30, 2021	December 31, 2020
Balance, January 1	3,948,785	1,043,923
Settled - issuance of shares from treasury	(138,501)	—
Settled - cash payment [1]	(13,702)	—
Granted	753,511	2,966,375
Forfeited	(43,341)	(61,513)
Performance adjustment	(23,728)	—
Balance, end of period	4,483,024	3,948,785

[1] Awards under share based plans elected by the Company to be settled with cash and not the issuance of shares from treasury.

Cash award incentive plan

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:

	June 30, 2021	December 31, 2020
Balance, January 1	**1,002,594**	582,594
Granted	**106,872**	420,000
Balance, end of period	**1,109,466**	1,002,594

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

		June 30, 2021		December 31, 2020
Balance, January 1	**$**	**943**	$	1,859
Change in accrued compensation liabilities		**3,473**		(916)
Balance, end of period	**$**	**4,416**	$	943

The compensation liability was calculated using share prices at December 31, 2020 and June 30, 2021 of $0.94 and $3.98, respectively.

Performance share units

In the fourth quarter of 2020, the Company granted units under a new performance share unit ("PSU") incentive plan. Each PSU entitles participants to receive cash equal to the trading price of the equivalent number of shares of the Company at the time of grant, 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, using the same performance assessment metrics as are used in the PSA plan.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of the reporting period.

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

	June 30, 2021	December 31, 2020
Balance, January 1	**975,436**	—
Settled	**(10,067)**	—
Granted	**—**	975,436
Forfeited	**(18,270)**	—
Balance, end of period	**947,099**	975,436

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

	June 30, 2021	December 31, 2020
Balance, January 1	$ 917	$ —
Change in accrued compensation liabilities	691	917
Cash settled	(17)	—
Balance, end of period	$ 1,591	$ 917

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Stock options	$ 423	$ 710	$ 837	$ 1,503
Restricted share awards	360	414	715	813
Performance share awards	363	304	812	574
Non cash share-based compensation expense	1,146	1,428	2,364	2,890
Director deferred share units	2,039	274	3,473	(1,302)
Performance share units	(5)	—	690	—
Restricted share awards [1]	—	—	26	—
Performance share awards [1]	—	—	33	—
Cash share-based compensation expense	2,034	274	4,222	(1,302)
Total share-based compensation expense	$ 3,180	$ 1,702	$ 6,586	$ 1,588

[1] Awards under share based plans elected by the Company to be settled with cash and not the issuance of shares from treasury.

During the six months ended June 30, 2021, there were $17 thousand cash settled PSUs, $26 thousand cash settled RSAs, $33 thousand PSAs, and no cash settled DSU's. There were no cash settled awards for the prior year comparative period.

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Capitalized stock options	$ 72	$ 127	$ 135	$ 270
Capitalized restricted share awards	59	16	110	88
Capitalized performance share awards	68	54	132	101
Capitalized share based compensation	$ 199	$ 197	$ 377	$ 459

Capitalized share-based compensation is attributable to personnel involved with the development of the Company's capital projects.

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:

	June 30, 2021			December 31, 2020		
	Gross financial assets	**Gross financial liabilities**	**Net financial liabilities**	Gross financial assets	Gross financial liabilities	Net financial liabilities
Current assets (liabilities)	**$ —**	**$ (66,933)**	**$ (66,933)**	$ —	$ (23,317)	$ (23,317)
Long-term assets (liabilities)	**—**	**(41,422)**	**(41,422)**	—	(41,621)	(41,621)
Net position	**$ —**	**$ (108,355)**	**$ (108,355)**	$ —	$ (64,938)	$ (64,938)

(c) Risk management contracts

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

	June 30, 2021	December 31, 2020
Fair value of contracts, beginning of year	**$ (64,938)**	$ (23,914)
Change in the fair value of contracts in the period	**(93,190)**	29,634
Fair value of contracts realized in the period	**49,773**	(70,658)
Fair value of contracts, end of period	**$ (108,355)**	$ (64,938)

The following is a summary of the financial derivatives as at June 30, 2021:

	WTI fixed price swap		C$ WTI 3 way collar			
Term [1]	Bbls/d	Cdn$/Bbl	Bbls/d	Cdn$/Bbl	Cdn$/Bbl	Cdn$/Bbl
Q3 2021	4,500	67.90	6,000	50.00	63.33	79.55
Q4 2021	1,500	72.63	7,750	52.58	65.81	81.14
Q1 2022	500	76.18	6,750	52.96	66.67	80.50
Q2 2022	500	76.18	6,750	52.96	66.67	80.50
Q3 2022	—	—	2,750	57.27	71.27	83.69
Q4 2022	—	—	1,000	50.00	66.00	78.63

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

	AECO-NYMEX basis swap		AECO-NYMEX basis buybacks		Chicago-NYMEX basis swap		Malin-NYMEX basis swap	
Term [1]	MMBtu/d	US$/ MMBtu	MMBtu/d	US$/ MMBtu	MMBtu/d	US$/ MMBtu	MMBtu/d	US$/ MMBtu
2021	95,000	(0.98)	(60,000)	(0.82)	21,685	(0.23)	20,000	(0.66)
2022	100,863	(0.96)	(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.

	Dawn-NYMEX basis swap	
Term [1]	MMBtu/d	US$/MMBtu
2021	10,000	(0.26)
2022	8,329	(0.26)

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

	NYMEX fixed price swap		NYMEX collars		
Term [1]	MMBtu/d	US$/MMBtu	MMBtu/d	US$/MMBtu	US$/MMBtu
Q3 2021	45,000	2.68	45,000	2.62	3.04
Q4 2021	28,424	2.72	41,685	2.75	3.32
Q1 2022	10,000	2.89	40,000	2.83	3.48
Q2 2022	10,000	2.89	5,000	2.80	3.45
Q3 2022	10,000	2.89	5,000	2.80	3.45
Q4 2022	3,370	2.89	1,685	2.80	3.45

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

Subsequent to June 30, 2021, the following is a summary of financial derivatives that have been entered into:

	C5-WTI differential swap	
Term [1]	Bbls/d	US$/Bbl
Q1 2022	3,000	0.17
Q2 2022	3,000	0.17

[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 June 30, 2021:

	AECO fixed price swap		Dawn-NYMEX Basis	
	GJ/d	Cdn$/GJ	MMBtu/d	US$/MMBtu
2021	3,315	2.62	10,000	(0.26)
2022	8,329	2.62	8,329	(0.26)

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

Subsequent to June 30, 2021, the following is a summary of physical delivery sales contracts that have been entered into:

	AECO fixed price swap	
Term (1)	GJ/d	Cdn$/GJ
Nov21 - Oct22	5,000	3.01

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

18. Financing costs

	Three months ended June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Interest expense	**$ 7,823**	$ 7,885	**$ 16,794**	$ 15,142
Lease interest expense	**3,332**	2,559	**6,676**	5,129
Accretion of asset retirement obligations	**486**	299	**1,175**	710
Total financing costs	**$ 11,641**	$ 10,743	**$ 24,645**	$ 20,981

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 June 30		Six months ended June 30	
	2021	2020	**2021**	2020
Cash provided by (used for):				
Accounts receivable and prepaid expenses	**$ 2,789**	$ 12,278	**$ (15,680)**	$ 19,737
Other assets	**327**	(54)	**787**	111
Accounts payable and accrued liabilities	**(222)**	(41,505)	**36,945**	(35,157)
Total	**$ 2,894**	$ (29,281)	**$ 22,052**	$ (15,309)
Related to:				
Operating activities	**$ 3,170**	$ (6,320)	**$ 19,897**	$ 9,891
Investing activities	**(276)**	(22,961)	**2,155**	(25,200)
	$ 2,894	$ (29,281)	**$ 22,052**	$ (15,309)

20. Commitments

The following is a summary of the Company's commitments as at June 30, 2021:

	Total	2021	2022	2023	2024	2025	Thereafter
Transportation (1)	$ 877,478	$ 49,354	$ 109,403	$ 91,351	$ 89,181	$ 90,029	$ 448,160
Processing (1)	1,037,150	31,879	72,770	82,205	84,894	68,524	696,878
Office lease (2)	4,701	469	948	999	857	151	1,277
Total commitments (3)	$ 1,919,329	$ 81,702	$ 183,121	$ 174,555	$ 174,932	$ 158,704	$ 1,146,315

(1) Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $23.7 million at June 30, 2021 (December 31, 2020 - $23.4 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.

Corporate Information

LEADERSHIP TEAM

Jonathan Wright
President and Chief Executive Officer

Ross Andreachuk
Vice President, Finance and Chief Financial Officer

Kevin Asman
Vice President, Marketing

Mike Lawford
Chief Operating Officer

Chris LeGrow
Vice President, Development & Planning

Ryan Paulgaard
Vice President, Production & Facilities

Josh Truba
Vice President, Land & Business Development

Tanya Dickison
Manager, Human Resources

BOARD OF DIRECTORS

Pentti Karkkainen (1) (2)
Chair of the Board

Ronald Eckhardt (4) (2)
Independent Director

Keith MacPhail (2) (4)
Independent Director

Ronald Poelzer (1) (2)
Independent Director

Brian Shaw (1) (3)
Independent Director

Sheldon Steeves (3) (4)
Independent Director

Deborah Stein (1) (3)
Independent Director

Grant Zawalsky (3) (4)
Independent Director

Jonathan Wright
President and Chief Executive Officer

(1) Member of Audit Committee
(2) Member of Corporate Governance & Compensation Committee
(3) Member of Environment, Social & Governance Committee
(4) Member of Reserves Committee

BANKERS

Canadian Imperial Bank of Commerce
Royal Bank of Canada
The Bank of Nova Scotia
Bank of Montreal
Alberta Treasury Branches
Canadian Western Bank
Export Development Canada

TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta and Toronto, Ontario

AUDITORS

KPMG LLP
Calgary, Alberta

RESERVE EVALUATORS

GLJ Ltd.
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange (“TSX”)
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