CONSOLIDATED FINANCIAL STATEMENTS

As at, and for the years then ended:
December 31, 2021 and 2020

MANAGEMENT'S REPORT

The preparation of the accompanying consolidated financial statements is the responsibility of Management. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards. Financial information contained throughout all other financial and operating data is consistent with these consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Where necessary, the consolidated financial statements include estimates, which are based on Management's informed judgments.

Management has established systems of internal controls, which are designed to provide reasonable assurance those assets, are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

Under the supervision of our Chief Executive Officer and our Chief Financial Officer, Management has conducted an evaluation of the effectiveness of our internal control over financial reporting. Management has concluded that as of December 31, 2021, our internal controls over financial reporting were effective. Because of the inherent limitations, internal controls over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

The Board of Directors is responsible for ensuring Management fulfils its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit Committee, all of whose members are non-management directors. The Audit Committee has reviewed the consolidated financial statements with Management and the auditors and has reported to the Board of Directors which have approved the consolidated financial statements.

KPMG LLP are independent auditors appointed by NuVista's shareholders. The auditors have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

(signed) "Jonathan A. Wright"
President and Chief Executive Officer
March 8, 2022

(signed) "Ross L. Andreachuk"
Vice President, Finance and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of NuVista Energy Ltd.

Opinion

We have audited the consolidated financial statements of NuVista Energy Ltd. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of earnings (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Financial Statements*"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of the recoverable amount of the Montney cash generating unit

Description of the matter

We draw attention to notes 2, 3, and 5 to the financial statements. Judgment is required to assess when indicators of impairment or impairment reversal exist and impairment testing is required. Impairments are reversed when events or circumstances give rise to changes in the estimate of the recoverable amount since the period the impairment was recorded. The Entity identified indicators of reversal of impairment at September 30, 2021 for its Montney cash generating unit (“the “CGU”). The Entity recorded an impairment recovery of $163.2 million related to its Montney CGU which has resulted in all previous impairment being reversed.

The estimated recoverable amount of the Montney CGU involves significant estimates, including:

- The estimate of proved and proved plus probable oil and gas reserves and the related cash flows
- The discount rates

The estimate of proved and proved plus probable oil and gas reserves and the related cash flows includes significant assumptions related to:

- Forecasted oil and natural gas prices
- Forecasted production volumes
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs

The Entity engages independent third-party reserve evaluators to estimate the proved and proved plus probable oil and gas reserves and the related cash flows at least annually.

Why the matter is a key audit matter

We identified the assessment of the recoverable amount of the Montney CGU as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and proved plus probable oil and gas reserves and the related cash flows and the discount rates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We independently developed the estimated recoverable amount of the Montney CGU as at December 31, 2021 and compared it to the carrying value to assess that the reversal of all previous impairments, net of depletion, recognized during the year ended December 31, 2021 was appropriate.

With respect to the estimate of proved and proved plus probable oil and gas reserves and the related cash flows as at December 31, 2021:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluators engaged by the Entity
- We compared forecasted oil and natural gas prices to those published by other independent third-party reserve evaluators
- We compared the 2021 actual production volumes, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year’s estimate of proved oil and gas reserves and the related cash flows to assess the Entity’s ability to accurately forecast
- We evaluated the appropriateness of forecasted production volumes, operating costs, royalty costs and future development costs assumptions by comparing to 2021 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Developing an independent estimate of the recoverable amount of the Montney CGU as at December 31, 2021 using proved and proved plus probable oil and gas reserves and the related cash flows evaluated by independent third-party reserve evaluators as at December 31, 2021 with an independently developed discount rate.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.
Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Jassie Kang.

Chartered Professional Accountants
Calgary, Canada
March 8, 2022

NUVISTA ENERGY LTD.
Consolidated Statements of Financial Position

($Cdn thousands)

As at December 31,	Note	2021	2020
Assets			
Current assets			
Accounts receivable and prepaid expenses		$ 88,537	$ 53,093
Other receivable		—	5,471
		88,537	58,564
Exploration and evaluation assets	4	18,135	34,368
Property, plant and equipment	5	2,177,379	1,947,998
Right-of-use assets	6	107,933	116,900
Total assets		$ 2,391,984	$ 2,157,830
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 140,002	$ 75,142
Current portion of lease liabilities	10	5,300	3,928
Current portion of asset retirement obligations	11	7,075	6,275
Financial derivative liabilities	18	40,317	23,317
		192,694	108,662
Long-term debt	8	196,055	362,673
Senior unsecured notes	9	223,178	217,724
Other liabilities	17	9,577	1,860
Lease liabilities	10	116,730	122,031
Asset retirement obligations	11	113,162	133,690
Financial derivative liabilities	18	16,938	41,621
Deferred tax liability	12	87,833	12,675
		956,167	1,000,936
Shareholders' equity			
Share capital	13	1,228,275	1,220,032
Contributed surplus		68,337	62,329
Retained earnings (deficit)		139,205	(125,467)
		1,435,817	1,156,894
Total liabilities and shareholders' equity		$ 2,391,984	$ 2,157,830
Subsequent events	18		
Commitments	21		

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

(signed) "Deborah S. Stein"
Director

(signed) "Pentti O. Karkkainen"
Director

NUVISTA ENERGY LTD.

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

($Cdn thousands, except per share amounts)

Year ended December 31,	Note	2021	2020
Revenues			
Petroleum and natural gas sales	15	$ 885,290	$ 424,637
Royalties		(65,099)	(16,930)
Revenue from petroleum and natural gas sales		820,191	407,707
Realized gain (loss) on financial derivatives		(115,616)	70,658
Unrealized gain (loss) on financial derivatives		7,683	(41,023)
Other income	11	1,248	—
Total revenue, other income and gain (loss) on risk management contracts		713,506	437,342
Expenses			
Operating		203,457	181,436
Transportation		100,782	82,312
General and administrative		19,909	14,014
Share-based compensation	17	12,846	5,238
Financing costs	19	53,874	45,232
Depletion, depreciation, amortization and impairment	5,6	862	359,359
Exploration and evaluation	4	10,225	3,370
Loss (gain) on property dispositions	7	(33,331)	759
		368,624	**691,720**
Earnings (loss) before taxes		344,882	(254,378)
Deferred income tax expense (recovery)	12	80,210	(56,499)
Net earnings (loss) and comprehensive income (loss)		$ 264,672	$ (197,879)
Net earnings (loss) per share	14		
Basic		$ 1.17	$ (0.88)
Diluted		$ 1.14	$ (0.88)

See accompanying notes to the consolidated financial statements.

NUVISTA ENERGY LTD.
Consolidated Statements of Changes in Shareholders' Equity

($Cdn thousands)

Year ended December 31,	Note		2021		2020
Share capital	13				
Balance, January 1		$	1,220,032	$	1,218,264
Issued for cash on exercise of stock options			3,305		—
Contributed surplus transferred on exercise of stock options			1,297		—
Conversion of restricted share awards			1,921		1,768
Conversion of performance share awards			1,720		—
Balance, end of period		$	1,228,275	$	1,220,032
Contributed surplus					
Balance, January 1		$	62,329	$	58,080
Share-based compensation			5,894		6,017
Transfer to share capital on exercise of stock options			(1,297)		—
Conversion of restricted share awards			(1,921)		(1,768)
Conversion of performance share awards			(1,720)		—
Tax deduction on excess value of share awards	12		5,052		—
Balance, end of period		$	68,337	$	62,329
Retained earnings (deficit)					
Balance, January 1		$	(125,467)	$	72,412
Net earnings (loss)			264,672		(197,879)
Balance, end of period		$	139,205	$	(125,467)
Total shareholders' equity		$	1,435,817	$	1,156,894

See accompanying notes to the consolidated financial statements.

NUVISTA ENERGY LTD.
Consolidated Statements of Cash Flows

($Cdn thousands)

Year ended December 31,	Note	2021	2020
Cash provided by (used in)			
Operating activities			
Net earnings (loss)		$ 264,672	$ (197,879)
Items not requiring cash from operations:			
Other income	11	(1,248)	—
Depletion, depreciation, amortization and impairment	5,6	862	359,359
Exploration and evaluation	4	10,225	3,370
Loss (gain) on property dispositions	7	(33,331)	759
Share-based compensation	17	5,054	5,237
Unrealized loss (gain) on financial derivatives		(7,683)	41,023
Deferred income tax expense (recovery)		80,210	(56,499)
Accretion	11	2,213	1,496
Asset retirement expenditures	11	(5,478)	(11,106)
Change in non-cash working capital	20	23,082	1,440
Cash provided by operating activities		338,578	147,200
Financing activities			
Issuance of share capital on exercise of stock options		3,305	—
Payment on lease liabilities		(3,929)	(2,174)
Increase (decrease) of long-term debt		(166,618)	56,399
Issuance of senior unsecured notes, net of financing costs		222,646	—
Repayment of senior unsecured notes		(217,724)	—
Cash used in financing activities		(162,320)	54,225
Investing activities			
Property, plant and equipment expenditures	5	(287,837)	(180,113)
Exploration and evaluation expenditures	4	(1,009)	(329)
Proceeds on property dispositions		92,544	—
Other receivable expenditures		4,795	4,830
Change in non-cash working capital	20	15,249	(25,813)
Cash used in investing activities		(176,258)	(201,425)
Change in cash and cash equivalents		—	—
Cash and cash equivalents, beginning of period		—	—
Cash and cash equivalents, end of period		$ —	$ —
Cash interest paid		$ 28,332	$ 29,277

See accompanying notes to the consolidated financial statements.

Year ended December 31, 2021 with comparative figures for 2020. All tabular amounts are in thousands of Canadian dollars, 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

Statement of compliance

The consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These accounting policies have been applied consistently for all periods presented in these financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors on March 8, 2022.

Basis of measurement

These financial statements have been prepared on the historical cost basis, except for certain items that have been measured at fair value as detailed in the accounting policies disclosed in Note 3 "Significant Accounting Policies".

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

Use of estimates and judgments

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 first quarter of 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. These events resulted in a volatile and challenging economic environment throughout 2020 which adversely affected the Company's operational results and financial position. Throughout 2021, both oil and gas prices improved significantly, largely due to a combination of improved global economic activity combined with reduced oil and natural gas supply, and the roll out of COVID-19 vaccinations. Estimates and judgments made by management in the preparation of the financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

The following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the financial statements:

Cash generating units

Cash generating units ("CGUs") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or group of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations.

Impairment indicators

Judgments are required to assess when internal or external indicators of impairment or impairment reversal exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves which are dependent upon variables including forecasted oil and natural gas prices, operating costs, royalties, production volumes, future development costs, discount rates and other relevant assumptions.

Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation ("E&E") assets requires management to make certain judgments in determining whether it is likely that future economic benefits exist when activities have not generally reached a stage where technical feasibility and commercial viability can be reasonably determined.

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in the financial statements:

Reserve estimates

Oil and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals. Reserve estimates and their related cash flows are based on a number of significant assumptions, which include forecasted oil and natural gas prices, operating costs, royalties, production volumes and future development costs, all of which are subject to many uncertainties and interpretations. The Company expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels and changes in commodity prices.

Independent third-party reserve evaluators are engaged annually to estimate proved and proved plus probable oil and gas reserves and the related cash flows from the Company's interest in oil and gas properties. This evaluation of proved and proved plus probable gas reserves is prepared in accordance with the reserves definitions as set up by the Canadian Securities Administrators in National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* and the Canadian Oil and Gas Evaluation ("COGE") Handbook.

Asset retirement obligations

Asset retirement obligations are recognized for the future decommissioning and restoration of property, plant and equipment. These obligations are based on estimated costs, which take into account the anticipated method and extent of restoration and technological advances. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience and prices. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. The deferred tax asset or liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

Business combinations

Business combinations are accounted for using the acquisition method of accounting when the assets acquired meet the definition of a business combination in accordance with IFRS. The determination of fair value assigned to assets acquired and liabilities assumed requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of oil and gas properties and E&E assets acquired include estimates of reserves acquired, forecast benchmark commodity prices and discount rates used to present future cash flows. Changes in any of these assumptions or estimates used in determining the fair value of assets acquired and liabilities assumed could impact the amounts assigned to assets, liabilities, goodwill or bargain purchase.

3. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments that are highly liquid in nature and have an original maturity date of three months or less.

Joint arrangements

A portion of exploration, development and production activities are conducted jointly with others and, accordingly, the Company only reflects its proportionate interest of the assets, liabilities, revenues, expenses and cash flows. The Company does not have any joint arrangements that are structured through a separate vehicle.

Exploration and evaluation assets

Exploration and evaluation expenditures are initially capitalized within “exploration and evaluation assets”. E&E costs may include the costs of acquiring licenses, technical services and studies, seismic acquisition, exploration drilling and testing costs, directly attributable general and administrative costs, and the cost of acquiring undeveloped land with no booked reserves. Costs incurred prior to having obtained the legal right to explore an area are charged to net earnings as exploration and evaluation expenditures in the period in which they are incurred.

E&E assets are not depreciated. These costs are accumulated and are carried forward until technical feasibility and commercial viability of the area is determined or the assets are determined to be impaired. Technical feasibility and commercial viability are met when the Company has determined that an E&E asset will be developed, as evidenced by the classification of proved or probable reserves and the appropriate internal and external approvals.

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is defined as the higher of fair value less costs to sell and value in use.

If proved and/or probable reserves have been discovered, E&E assets are first tested for impairment prior to the reclassification to property, plant and equipment. The carrying value, after any impairment loss, of the relevant E&E assets and associated undeveloped land is then reclassified as development and production assets within property, plant and equipment.

Any impairment loss on E&E assets, unsuccessful E&E costs and the cost of undeveloped land that has expired are charged to net earnings as exploration and evaluation expense.

Development and production assets

Items of property, plant and equipment which include oil and gas development and production assets and corporate assets are measured at cost less accumulated depletion, depreciation, amortization and impairment. Development and production assets are accumulated on an area-by-area basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets as outlined above.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in net earnings as incurred. Such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net earnings as incurred.

Impairment

An impairment test is performed when events and circumstances arise, at each reporting date, that indicate that the carrying value of a development and production asset may exceed its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, defined as the greater of fair value less costs to sell and its value in use. Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined by using discounted future net cash flows of proved and proved plus probable reserves using forecast prices and costs including expansion prospects and its eventual disposal, using assumptions that an independent market participant may take into account. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset. If any indications of impairment exist, the Company performs an impairment test related to the assets. Individual assets or areas are grouped for impairment assessment purposes into CGU's, which are the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is recorded within depletion, depreciation, amortization and impairment expense in net earnings. Impairments are reversed when events or circumstances give rise to changes in the estimate of the recoverable amount since the period the impairment was recorded. An impairment loss is reversed only to the extent that the CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

Depletion, depreciation, amortization ("DD&A)

The costs of development and production assets are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated by taking into account the level of development required to produce the reserves. These estimates are reviewed by independent third party reserve evaluators annually.

Other property, plant and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) and depreciated over their useful lives. Costs associated with workovers are depreciated over two years and plant turnarounds and overhauls are depreciated over five years. Corporate assets are depreciated on a straight line basis over the useful life of the related assets. Right-of-use assets are depreciated on a straight line basis over the economic life of the contract. The assets' useful lives and residual values are assessed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Asset purchases and disposals

Transactions involving the purchase of an individual area, or a group of areas, that do not qualify as a business combination, are treated as asset purchases irrespective of whether the specific transactions involved the transfer of the areas directly or the transfer of an incorporated entity. Accordingly, no goodwill arises and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposition are compared to the carrying value of the specific exploration and evaluation assets, development and production assets and asset retirement obligations disposed and any surplus or shortfall is recorded as a gain or loss on disposal in net earnings.

Asset exchange transactions

Asset exchange transactions for development and production assets are measured at the fair value of the asset acquired and the assets given up are measured at the carrying amount. Gains and losses are recorded in net earnings in the period incurred.

Business combinations

Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. Business combinations are accounted for using the acquisition method. The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition, with limited exceptions. Any excess of the purchase price over the recognized amount (generally the fair value) of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the recognized amount of the net assets acquired is recorded as a bargain purchase gain in net earnings. Associated transactions costs are expensed when incurred.

The following amendment as issued by the IASB has been adopted by the Company effective January 1, 2020. IFRS 3 – Business Combinations sets out the principles in accounting for the acquisition of a business. The amendments to this standard include a change in the definition of a business and the addition of an optional concentration test to determine if the acquisition is a business. The definition of a business under the amendment to IFRS 3 is now that a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defied as follows:

- Input: any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.

- Process: any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output: the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not be a business and no further assessment is needed.

Provisions

Provisions are recognized when the Company has a present obligation (legal and/or constructive) as a result of a past event, if it is probable the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered by a third-party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are not recognized for future operating losses.

Asset retirement obligations

The Company recognizes a liability in the period in which it has a present and legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, the Company reviews these estimates and changes, if any, are applied prospectively. An obligation is recognized for the estimated cost of abandonment and site restoration, by discounting expected future cash flows required to settle the obligation using a risk free rate, with a corresponding amount capitalized as asset retirement costs in property, plant and equipment. These asset retirement costs are subsequently depleted on a unit-of-production basis over the life of the proved and probable reserves. The obligation is adjusted each reporting period to reflect the passage of time and changes to the estimated future cash flows underlying the obligation. The increase in the obligation due to the passage of time is recognized as accretion expense and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligations are charged against the liability.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company.

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

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

Incremental borrowing rate

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

Lease term

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

Revenue recognition

NuVista's petroleum and natural gas revenue from the sale of natural gas, condensate, oil and natural gas liquids ("NGLs") are based on the consideration specified in contracts with customers. NuVista recognizes revenue when it transfers control of the product to the customer. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon and collection is reasonably assured. The amount of revenue recognized is based on the consideration specified in the contract. As a result of various marketing arrangements, NuVista will give up title to their commodity to a third party marketing company who will deliver the product to the end customer using NuVista's pipeline capacity. This revenue is shown separate as transportation revenue. NuVista evaluates its arrangements with third parties and partners to determine if NuVista is acting as the principal or as an agent. NuVista is considered the principal in a transaction when it has primary responsibility for the transaction. If NuVista acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by NuVista from the transaction. The transaction price for variable price contracts is based on a representative commodity price index, and may be adjusted for quality, location, delivery method, or other factors depending on the agreed upon terms of the contract. The amount of revenue recorded can vary depending on the grade, quality and quantities of natural gas, condensate, oil or NGLs transferred to customers. Market conditions, which impact NuVista's ability to negotiate certain components of the transaction price, can also cause the amount of revenue recorded to fluctuate from period to period. Tariffs, tolls and fees charged to other entities for use of pipelines and facilities owned by NuVista are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Tariffs, tolls and fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

Transportation

Transportation expenses include costs incurred to transport crude oil, natural gas, condensate, oil and natural gas liquids from the wellhead to the point of title transfer.

Financial instruments

Non-derivative financial instruments

Financial instruments are measured at fair value on initial recognition. For subsequent measurement, financial instruments have three principal classification categories; measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). The Company's classification for each identified financial instrument is provided below:

Financial Instrument	Measurement Category
Accounts receivable and prepaid expenses	Amortized cost
Derivative assets and liabilities	FVTPL
Other receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease liability	Amortized cost
Other liabilities	Amortized cost
Long-term debt	Amortized cost
Senior unsecured notes	Amortized cost

The classification of financial assets and liabilities is based on the business model in which the asset is managed and its contractual cash flow characteristics. Financial assets and liabilities are subsequently measured at amortized cost if it meets both of the following conditions:

- the asset is held with a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows on specified dates that are solely payments of principal and interest on principal amounts outstanding.

Financial assets and liabilities that meet criteria (b) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at FVOCI. All other financial assets and liabilities are subsequently measured at FVTPL.

Where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded through comprehensive earnings or loss rather than net earnings or loss.

NuVista recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, NuVista measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability- weighted estimate of credit loss and are discounted at the effective interest rate of the related financial asset.

Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in net earnings when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in net earnings (loss).

The Company has accounted for its forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Realized gains or losses from natural gas and oil commodity physical delivery sales contracts are recognized in oil and natural gas revenue as the contracts are settled.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in net earnings.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Share-based compensation

The Company has four types of incentive plans: stock options, director deferred share units (“DSU”), performance share awards (“PSA”), restricted share awards (“RSA”), and performance share units (“PSU”) that may be granted to directors, officers and employees.

The Company’s stock option plan provides the stock option holder with the right to purchase common shares. The Company uses the fair value method for valuing stock option grants using the Black-Scholes option pricing model. Under this method, the compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period to share-based compensation expense with a corresponding increase to contributed surplus. Upon the exercise of stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. A forfeiture rate is estimated on the grant date and is subsequently adjusted each period to reflect the actual number of options that are expected to vest.

The Company's DSU plan entitles participants to receive cash based on the Company's share price at the time of retirement. A liability for expected cash payments is accrued over the life of the DSUs based on the market price of the Company's common shares. Compensation expense is recorded in net earnings as share-based compensation expense.

The RSA and PSA incentive plans allows a holder of the RSA and of PSA to receive common shares upon vesting. Grants under the PSA plan are multiplied by a payout multiplier ranging from 0 to 2.0x, determined by the Board based on an assessment of the Company's achievement of predefined corporate performance measures. The Company uses the fair value method for valuing RSA and PSA grants using the Black-Scholes option pricing model. 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. Upon vesting of the RSAs and PSAs the previously recognized value in contributed surplus will be recorded as an increase to share capital.

The Company's PSU plan entitles participants to receive cash based on the Company's share price at the time of retirement. Grants under the PSA plan are multiplied by a payout multiplier ranging from 0 to 2.0x, determined by the Board based on an assessment of the Company's achievement of predefined corporate performance measures. A liability for expected cash payments is accrued over the life of the PSUs based on the market price of the Company's common shares and the payout multiplier. Compensation expense is recorded in net earnings as share-based compensation expense.

Income taxes

Income tax expense represents the sum of the tax currently payable and the deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred income tax assets and liabilities are netted in certain circumstances.

Deferred income tax expense is recognized in the statement of earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Earnings (loss) per share

Basic earnings per share is calculated by dividing the net earnings or losses attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. The Company calculates the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money stock options, RSAs and PSAs are used to purchase common shares at average market prices.

Government grants

Government grants are recognized when there is a reasonable expectation that the conditions attached to the grants have been met, and that the grants will be received. Government grants primarily related to asset expenditures will be presented as a reduction to the capital cost of the asset the grant relates to. Government grants primarily related to income will be presented in the consolidated statement of earnings (loss) in the period in which the expenditures are incurred or the related income is earned.

Future accounting pronouncements

Various amendments to existing standards and new accounting requirements have been released that are effective January 1, 2022. The Company does not anticipate the new requirements to have a material impact on the financial statements.

4. Exploration and evaluation assets

	Note	2021	2020
Balance, January 1		$ 34,368	$ 27,947
Additions		9	329
Acquisitions [1]		—	10,625
Dispositions [1]		(4,912)	(533)
Transfers to property, plant and equipment	5	(1,105)	(630)
Expiries (exploration and evaluation expense)		(10,225)	(3,370)
Balance, end of period		$ 18,135	$ 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	2021	2020
Cost			
Balance, January 1		$ 3,311,998	$ 3,119,117
Additions		287,837	180,113
Acquisitions [1]		—	875
Dispositions [1]		(94,385)	(15,142)
Capitalized share-based compensation	17	840	779
Change in asset retirement obligations	11	2,336	25,626
Transfers from exploration and evaluation assets	4	1,105	630
Balance, end of period		$ 3,509,731	$ 3,311,998

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

	2021	2020
Accumulated depletion, depreciation, amortization and impairment		
Balance, January 1	$ 1,364,000	$ 1,016,027
Depletion, depreciation and amortization ("DD&A")	155,073	162,954
Dispositions	(23,543)	(2,837)
Impairment expense (reversal)	(163,178)	187,856
Balance, end of period	$ 1,332,352	$ 1,364,000

	2021	2020
Carrying value		
Balance, January 1	$ 1,947,998	$ 2,103,090
Balance, end of period	$ 2,177,379	$ 1,947,998

Future development costs of $2.2 billion were included in the determination of DD&A for the year ended December 31, 2021 (2020 - $2.5 billion).

At December 31, 2021, there were no indicators of impairment identified in any of the Company's CGUs within property, plant & equipment and an impairment test was not performed.

At September 30, 2021, there were indicators of reversal of impairment identified in NuVista's Montney CGU primarily as a result of improved forward commodity prices for natural gas and condensate and oil, improving well economics and improvements to economic cutoff limits on reserve evolution, continued strong well performance, and a significantly improved share price. An impairment test was performed on PP&E assets. PP&E 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 an internally prepared reserves report. A total impairment recovery of $163.2 million net of depletion was recognized at September 30, 2021 in NuVista's Montney CGU, which has been included in the depletion, depreciation, amortization and impairment expense.

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030 [2]
WTI (US$/Bbl)	75.00	72.00	69.01	67.24	68.58	69.96	71.35	72.78	74.24	75.72
NYMEX (US$/MMBtu)	5.70	4.50	3.50	3.15	3.21	3.28	3.34	3.41	3.48	3.55
Exchange rate (US$/Cdn$)	0.79	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80

[1] GLJ Ltd. price forecast, effective October 1, 2021.
[2] 2031 and beyond commodity price forecasts are inflated at 2.0% per annum. In 2031 and beyond there is no escalation of exchange rates.

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	2021 Total	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	792	2,408	5,767	**8,967**	7,356
Impairment	—	—	—	**—**	1,193
Balance, end of period	$ 2,378	$ 5,618	$ 12,829	**$ 20,825**	$ 11,858
Carrying amount					
Balance, January 1	$ 3,895	$ 33,711	$ 79,294	**$ 116,900**	$ 116,622
Balance, end of period	**$ 3,103**	**$ 31,303**	**$ 73,527**	**$ 107,933**	$ 116,900

7. Property dispositions

		2021		2020
Proceeds from dispositions	$	92,544	$	11,500
Exploration and evaluation disposed		(4,912)		(533)
Property, plant and equipment, net of accumulated DD&A disposed		(70,842)		(12,305)
Asset retirement obligations disposed		17,551		584
Working capital		(1,010)		(5)
Gain (loss) on dispositions	$	33,331	$	(759)

For the year ended December 31, 2021, the Company disposed of properties for gross proceeds of $92.5 million (2020 - $11.5 million). A gain on dispositions of $33.3 million was recorded for the year ended December 31, 2021 (2020 - $0.8 million loss).

8. Long-term debt

At December 31, 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 and bankers' acceptances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin. For the year ended December 31, 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. The semi annual review was completed on November 30, 2021, with no change to the credit facility. The next annual review is scheduled for on or before May 31, 2022.

As at December 31, 2021, the Company had drawn $196.1 million on its term credit facility (December 31, 2020 – $362.7 million) and had outstanding letters of credit of $7.0 million (December 31, 2020 - $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 December 31, 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 December 31, 2021, the Company had outstanding letters of credit associated with the APSG of $18.1 million (December 31, 2020 - $17.0 million), leaving $11.9 million of credit available on this facility.

9. Senior unsecured notes

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.

The 2026 Notes are non-callable by the Company prior to July 23, 2023. At any time on or after July 23, 2023, the Company may redeem all or part of the 2026 Notes at the redemption prices set forth in the table below plus any accrued and unpaid interest:

12 month period beginning on:	Percentage
July 23, 2023	103.938%
July 23, 2024	101.969%
July 23, 2025 and thereafter	100.000%

If a change of control occurs, each holder of the 2026 Notes will have the right to require the Company to purchase all or any part of that holder's 2026 Notes for an amount in cash equal to 101% of the aggregate principal repurchased plus accrued and unpaid interest.

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. On July 23, 2021, part of the proceeds from the 2026 Notes were used to redeem the full aggregate principal amount of $220 million of the Company’s existing 2023 Notes, resulting in an agreed redemption call premium of $3.6 million and $1.8 million of remaining accretion of the carrying value which is included in interest on senior unsecured notes, for a total incremental expense on redemption of $5.4 million.

10. Lease liabilities

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

		2021		2020
Balance, January 1	$	**125,959**	$	119,307
Additions [(1)]		**—**		8,827
Lease interest expense		**13,248**		11,294
Payment of leases		**(17,177)**		(13,469)
Balance, end of period	$	**122,030**	$	125,959
Current portion of lease liabilities	$	**5,300**	$	3,928
Non current portion of lease liabilities	$	**116,730**	$	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.

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

		2021		2020
Less than 1 year	$	**18,062**	$	17,176
1-3 years		**53,397**		54,194
4-5 years		**34,539**		34,532
After 5 years		**117,578**		134,851
Total undiscounted future lease payments	$	**223,576**	$	240,753
Amounts representing lease interest expense over the term of the lease		**(101,546)**		(114,794)
Present value of net lease payments	$	**122,030**	$	125,959

11. Asset retirement obligations

		2021		2020
Balance, January 1	$	139,965	$	124,533
Accretion expense		2,213		1,496
Liabilities incurred		4,842		3,191
Liabilities disposed		(17,551)		(584)
Change in estimates		3,148		7,129
Change in discount rate		(5,654)		15,306
Liabilities settled (cash)		(5,478)		(11,106)
Liabilities settled (non-cash) (1)		(1,248)		—
Balance, end of period	$	120,237	$	139,965
Expected to be incurred within one year	$	7,075	$	6,275
Expected to be incurred beyond one year	$	113,162	$	133,690

(1) Liabilities settled (non-cash) of $1.2 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 December 31, 2021, the estimated total undiscounted, uninflated amount of cash flows required to settle the asset retirement obligations is $117.1 million (December 31, 2020 – $132.8 million), of which 29% is estimated to be incurred within the next 10 years. The Government of Canada benchmark long-term risk-free bond rate of 1.7% (December 31, 2020 – 1.2%) and an inflation rate of 1.8% (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 1.7% (December 31, 2020 - 1.2%) and the real rate of interest of (0.14)% (December 31, 2020 - (0.28)%).

12. Deferred income taxes

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before deferred income tax expense (benefit) as follows:

		2021		2020
Income before tax	$	344,882	$	(254,378)
Expected tax rate (1)		23.00%		24.00%
Expected income tax expense		79,323		(61,051)
Effect of change in corporate tax rates		—		3,340
Non-deductible expenses		427		1,659
Flow-through share renunciations		—		—
Change in unrecognized deferred income tax assets		—		—
Other		460		(447)
Deferred income tax expense (benefit)	$	80,210	$	(56,499)

(1) The statutory rate consists of the combined statutory rates for the Company for the years ended December 31, 2021 and 2020.

The significant components of the net deferred income tax liability (asset) are as follows:

	2021	2020
Deferred tax liability		
Oil and natural gas properties	$ 293,906	$ 205,545
Financial derivative contracts	—	—
Senior unsecured notes	438	523
Other	—	—
	294,344	206,068
Deferred tax assets		
Asset retirement obligations	(55,721)	(61,162)
Share issue costs	(2,723)	(2,807)
Financial derivative contracts	(13,169)	(15,585)
Non-capital losses	(123,856)	(112,448)
Other	(11,042)	(1,391)
	(206,511)	(193,393)
Net deferred tax liability	$ 87,833	$ 12,675

A continuity of the net deferred tax liability is detailed in the following tables:

Assets (liability)	Balance January 1, 2021	Recognized in profit or loss	Recognized in equity	Other	Balance December 31, 2021
Oil and natural gas properties	$ (205,545)	$ (88,361)	$ —	$ —	$ (293,906)
Asset retirement obligations	61,162	(5,441)	—	—	55,721
Share issue costs	2,807	(84)	—	—	2,723
Senior unsecured notes	(523)	85	—	—	(438)
Financial derivative contracts	15,585	(2,416)	—	—	13,169
Non-capital losses	112,448	11,408	—	—	123,856
Other	1,391	4,599	5,052	—	11,042
Total	$ (12,675)	$ (80,210)	$ 5,052	$ —	$ (87,833)

Asset (liability)	Balance January 1, 2020	Recognized in profit or loss	Recognized in equity	Other	Balance December 31, 2020
Oil and natural gas properties	$ (228,166)	$ 22,621	$ —	$ —	$ (205,545)
Asset retirement obligations	56,503	4,659	—	—	61,162
Share issue costs	4,421	(1,614)	—	—	2,807
Senior unsecured notes	(773)	250	—	—	(523)
Financial derivative contracts	6,337	9,248	—	—	15,585
Non-capital losses	91,530	20,918	—	—	112,448
Other	974	417	—	—	1,391
Total	$ (69,174)	$ 56,499	$ —	$ —	$ (12,675)

The Company has $534.8 million of non capital losses available which expire between 2029 and 2041.

13. Share capital

Common shares

	2021		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	**—**	**3,305**	—	—
Contributed surplus transferred on exercise of stock options	**792,027**	**1,297**	—	—
Conversion of restricted share awards	**686,089**	**1,921**	245,140	1,768
Conversion of performance share awards	**263,353**	**1,720**	—	—
Balance, end of period	**227,578,334**	**$ 1,228,275**	225,836,865	$ 1,220,032

14. Earnings (loss) per share

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

	Year ended December 31	
(thousands of shares)	**2021**	2020
Weighted average common shares outstanding		
Basic	**226,288**	225,683
Diluted	**233,050**	225,683

Share awards for year ended December 31, 2020 were determined to be anti-dilutive.

15. 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:

	Year ended December 31	
	2021	2020
Natural gas revenue [1]	**$ 309,979**	$ 165,239
Condensate & oil revenue	**506,890**	234,247
NGL revenue [2]	**68,421**	25,151
Total petroleum and natural gas revenue	**$ 885,290**	$ 424,637

(1) Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the year ended December 31, 2021, our physical delivery sales contracts resulted in a loss of $2.3 million (2020 – $9.6 million loss).
(2) Includes butane, propane, ethane and sulphur revenue.

A breakdown of natural gas revenue is as follows:

	Year ended December 31	
	2021	2020
Natural gas revenue - AECO reference price [1]	**$ 242,235**	$ 152,053
Heat/value adjustment [2]	**24,409**	11,849
Transportation revenue [3]	**33,848**	28,723
Natural gas market diversification gain (loss)	**11,816**	(17,817)
AECO physical delivery price risk management gains (losses) [4]	**(2,329)**	(9,569)
Total natural gas revenue	**$ 309,979**	$ 165,239

(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 December 31, 2021 is $94.1 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.

16. 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, capital expenditures, and the timing of acquisitions and dispositions. At December 31, 2021, the Company's net debt was 0.8 times its annualized fourth 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:

	Year ended December 31	
	2021	2020
Cash provided by operating activities	**$ 338,578**	$ 147,200
Asset retirement expenditures	**5,478**	11,106
Change in non-cash working capital	**(23,082)**	(1,440)
Adjusted funds flow [1]	**$ 320,974**	$ 156,866

[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 liabilities. 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, net debt to annualized current quarter adjusted funds flow, adjusted funds flow and net debt to adjusted funds flow:

	2021	2020
Basic common shares outstanding (‘000s)	**227,578**	225,837
Share price[1]	**$ 6.96**	$ 0.94
Total market capitalization	**$ 1,583,943**	$ 212,287
Cash and cash equivalents, accounts receivable and prepaid expenses	**$ (88,537)**	$ (53,093)
Other receivable	**—**	(5,471)
Accounts payable and accrued liabilities	**140,002**	75,142
Long-term debt (credit facility)	**196,055**	362,673
Senior unsecured notes	**223,178**	217,724
Other liabilities	**9,577**	1,860
Net debt [2]	**$ 480,275**	$ 598,835
Annualized current quarter adjusted funds flow	**$ 606,660**	$ 197,596
Net debt to annualized current quarter adjusted funds flow	**0.8**	3.0
Adjusted funds flow	**$ 320,974**	$ 156,866
Net debt to adjusted funds flow	**1.5**	3.8

[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. See “Non-GAAP and other financial measures” in the Management Discussion and Analysis (“MD&A”).

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.

17. 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 December 31, 2021 is 8,541,607.

The following continuity table summarizes the stock option activity:

	2021		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	**925,236**	**3.89**	2,033,034	0.82
Exercised	**(792,027)**	**4.17**	—	—
Forfeited	**(70,523)**	**4.13**	(290,817)	5.68
Expired	**(1,145,165)**	**7.26**	(1,413,551)	6.96
Balance, end of period	**6,972,487**	**$ 3.78**	8,054,966	$ 4.30

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 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	1,869,866	3.3	$ 0.83	537,095	$ 0.83
$2.00 to $3.99	2,325,514	2.6	2.93	1,084,776	3.08
$4.00 to $5.99	1,216,479	1.5	4.46	1,199,179	4.46
$6.00 to $7.99	756,882	1.9	7.17	510,126	7.12
$8.00 to $9.43	803,746	1.1	8.9	803,746	8.90
$0.79 to $9.43	**6,972,487**	**2.4**	**$ 3.78**	**4,134,922**	**$ 4.82**

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:

	2021	2020
Risk-free interest rate (%)	**0.97**	0.37
Expected volatility (%)	**79**	77
Expected life (years)	**4.5**	4.5
Forfeiture rate (%)	**10**	10
Fair value at grant date ($ per option)	**2.35**	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 585,255 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:

	2021	2020
Balance, January 1	2,407,697	965,075
Settled - issuance of shares from treasury	(686,089)	(245,140)
Settled - cash payment [1]	(10,961)	—
Granted	631,911	1,746,216
Forfeited	(34,003)	(58,454)
Balance, end of period	2,308,555	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:

	2021	2020
Balance, January 1	3,948,785	1,043,923
Settled - issuance of shares from treasury	(263,353)	—
Settled - cash payment (1)	(13,702)	—
Granted	1,043,455	2,966,375
Forfeited	(48,246)	(61,513)
Performance adjustment	(22,265)	—
Balance, end of period	4,644,674	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:

	2021	2020
Balance, January 1	1,002,594	582,594
Granted	145,336	420,000
Balance, end of period	1,147,930	1,002,594

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

	2021	2020
Balance, January 1	$ 943	$ 1,859
Change in accrued compensation liabilities	7,047	(916)
Balance, end of period	$ 7,990	$ 943

The compensation liability was calculated using share prices at December 31, 2020 and December 31, 2021 of $0.94 and $6.96, 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:

	2021	2020
Balance, January 1	975,436	—
Settled	(10,353)	—
Granted	—	975,436
Forfeited	(20,438)	—
Balance, end of period	944,645	975,436

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

	2021	2020
Balance, January 1	$ 917	$ —
Change in accrued compensation liabilities	687	917
Cash settled	(17)	—
Balance, end of period	$ 1,587	$ 917

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

	2021	2020
Stock options	$ 1,678	$ 2,538
Restricted share awards	1,498	1,440
Performance share awards	1,878	1,259
Non cash share-based compensation expense	5,054	5,237
Director deferred share units	7,047	(916)
Performance share units	687	917
Restricted share awards [1]	26	—
Performance share awards [1]	32	—
Cash share-based compensation expense	7,792	1
Total share-based compensation expense	$ 12,846	$ 5,238

(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 year ended December 31, 2021, there were $17 thousand cash settled PSUs, $26 thousand cash settled RSAs, $32 thousand PSAs, and no cash settled DSUs. There were no cash settled awards for the prior year comparative period.

	2021	2020
Capitalized stock options	$ 285	$ 411
Capitalized restricted share awards	238	172
Capitalized performance share awards	317	196
Capitalized share based compensation	$ 840	$ 779

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

18. Risk management activities

Financial instruments

The Company's financial instruments recognized on the statement of financial position consists of cash and cash equivalents, accounts receivable, note receivable, financial derivative contracts, accounts payable and accrued liabilities, compensation liability, lease liabilities, and long-term debt. 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 liability, 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, financial derivative contracts as Level 2, there are currently no Level 3 assets. 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.

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:

			2021			2020
	Gross financial assets	**Gross financial liabilities**	**Net financial liabilities**	Gross financial assets	Gross financial liabilities	Net financial liabilities
Current assets (liabilities)	**$ —**	**$ (40,317)**	**$ (40,317)**	$ —	$ (23,317)	$ (23,317)
Long-term assets (liabilities)	**—**	**(16,938)**	**(16,938)**	—	(41,621)	(41,621)
Net position	**$ —**	**$ (57,255)**	**$ (57,255)**	$ —	$ (64,938)	$ (64,938)

Risk management contracts

The following is a summary of financial derivative contracts in place as at December 31, 2021:

	WTI fixed price swap		C5 - WTI differential swap		C$ WTI 3 way collar			
Term [1]	Bbls/d	Cdn$/Bbl	Bbls/d	US$/Bbl	Bbls/d	Cdn$/Bbl	Cdn$/Bbl	Cdn$/Bbl
Q1 2022	500	76.18	4,000	0.38	10,000	58.75	71.25	87.88
Q2 2022	500	76.18	4,000	0.38	10,000	58.75	71.25	87.88
Q3 2022	—	—	—	—	6,000	64.58	76.42	94.26
Q4 2022	—	—	—	—	2,000	61.25	74.25	93.89

[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
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
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
Q1 2022	10,000	2.89	95,000	3.57	8.14
Q2 2022	10,000	2.89	25,000	3.11	4.32
Q3 2022	10,000	2.89	25,000	3.11	4.32
Q4 2022	3,370	2.89	8,424	3.11	4.32

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

	AECO fixed price swap		AECO collars		
Term [1]	GJ/d	Cdn$/GJ	GJ/d	Cdn$/GJ	Cdn$/GJ
Q1 2022	—	—	5,000	3.00	3.70
Q2 2022	10,000	3.02	20,000	2.91	3.70
Q3 2022	10,000	3.02	20,000	2.91	3.70
Q4 2022	3,370	3.02	6,739	2.91	3.70

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

Subsequent to December 31, 2021, the following is a summary of financial derivatives that have been entered into:

	C$ WTI 3 way collar			
Term [1]	Bbls/d	Cdn$/Bbl	Cdn$/Bbl	Cdn$/Bbl
Q2 2022	1,000	85.00	100.00	118.99
Q3 2022	2,000	85.00	100.00	125.54
Q4 2022	2,000	85.00	100.00	125.54
Q1 2023	2,000	85.00	100.00	125.54
Q2 2023	1,000	85.00	100.00	132.10

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

	AECO fixed price swap		NYMEX collar		
Term (1)	GJ/d	Cdn$/GJ	MMBtu/d	US$/MMBtu	US$/MMBtu
Q2 2022	5,000	3.65	40,000	5.55	3.89
Q3 2022	5,000	3.65	40,000	5.55	3.89
Q4 2022	11,630	4.21	26,739	6.39	4.07
Q1 2023	15,000	4.30	20,000	7.25	4.25

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

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

	2021	2020
Fair value of contracts, beginning of year	**$ (64,938)**	$ (23,914)
Change in the fair value of contracts in the period	**(107,933)**	29,634
Fair value of contracts realized in the period	**115,616**	(70,658)
Fair value of contracts, end of year	**$ (57,255)**	$ (64,938)
Financial derivative assets (liabilities) – current	**$ (40,317)**	$ (23,317)
Financial derivative assets (liabilities) – long term	**$ (16,938)**	$ (41,621)

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 December 31, 2021:

	AECO fixed price swap		Dawn-NYMEX Basis	
Term [1]	GJ/d	Cdn$/GJ	MMBtu/d	US$/MMBtu
2022	21,288	2.86	8,329	(0.26)

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

Subsequent to December 31, 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
Q4 2022	3,315	4.82
Q1 2023	5,000	4.82

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

Financial risk management

In the normal course of business, the Company is exposed to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its accounts receivables. Most of the Company's accounts receivable arises from transactions with joint interest partners and petroleum and natural gas sales with petroleum and natural gas marketers. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis.

The accounts receivable balance was $88.5 million of which $1.4 million of accounts receivable were past due. The Company considers all amounts greater than 90 days past due. These past due accounts receivable are considered to be collectible. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. The Company did not have accounts receivable balances owing from counterparties that constituted more than 10% of the total revenue during the year ended December 31, 2021.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of the actual capital expenditure program, managing maturity profiles of financial assets and financial liabilities, maintaining a revolving credit facility with sufficient capacity, and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meet its financial obligations when due.

The timing of cash flows relating to financial liabilities as at December 31, 2021 is as follows:

	Total	1 year	2 to 3 years	4 to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	**$ 140,002**	$ 140,002	$ —	$ —	$ —
Senior unsecured notes	**223,178**	—	—	223,178	—
Long-term debt	**196,055**	—	196,055	—	—
Lease liabilities	**122,030**	5,300	18,689	14,924	83,117
Total financial liabilities	**$ 681,265**	$ 145,302	$ 214,744	$ 238,102	$ 83,117

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity price risk, currency risk, and interest rate risk. The Company is engaged in oil and gas exploration, development and production activities in Canada and as a result has significant exposure to commodity price risk. The Company has adopted a disciplined commodity price risk management program as part of its overall financial management strategy. The Company considers all of these transactions to be economic hedges but does not designate them as hedges for accounting purposes.

(a) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in commodity prices. The Company manages the risks associated with changes in commodity prices through the use of various financial derivative and physical delivery sales contracts. The financial derivative contracts are considered financial instruments but the physical delivery sales contracts are excluded from the definition of financial instruments. The Company uses financial instruments and physical delivery sales contracts to manage petroleum and natural gas commodity price risk.

(b) Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for petroleum and natural gas are impacted by changes in exchange rate between the Canadian and United States dollars. In addition, NuVista has US dollar denominated receivables and payables which future cash payments are directly impacted by the exchange rate in effect on the payment date.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2021.

If interest rates increase or decreased by 1% it is estimated that net earnings would increase and or decrease by $1.4 million. This is based on the assumption that the interest rate increase or decrease was in effect at the beginning of the year.

(d) Financial instrument sensitivities

The following table summarizes the effects of movement in commodity prices on net earnings due to changes in the fair value of financial derivative contracts in place at December 31, 2021. Changes in the fair value generally cannot be extrapolated because the relationship of a change in an assumption to the change in fair value may not be linear.

CDN $		**2021**		2020
Increase in $ WTI – oil $10/Bbl	**$**	**(4,044)**	$	(35,588)
Decrease in $ WTI – oil $10/Bbl	**$**	**12,467**	$	35,596
Increase in $ AECO – gas $0.50/GJ	**$**	**(10,766)**	$	(11,412)
Decrease in $ AECO – gas $0.50/GJ	**$**	**3,380**	$	11,193

19. Financing costs

	2021	2020
Interest on long-term debt (credit facility)	$ 15,931	$ 17,150
Interest on senior unsecured notes [1]	18,907	15,292
Call premium on redemption of 2023 Notes	3,575	—
Interest expense	38,413	32,442
Lease interest expense	13,248	11,294
Accretion expense	2,213	1,496
Total financing costs	$ 53,874	$ 45,232

[1] For the year ended December 31, 2021, includes debt extinguishment expense of $1.8 million on the redemption of the 2023 Notes.

20. Supplemental cash flow information

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

	2021	2020
Cash provided by (used for):		
Accounts receivable and prepaid expenses	$ (33,571)	$ 9,594
Other assets	(1,207)	81
Accounts payable and accrued liabilities	73,109	(34,048)
Total	$ 38,331	$ (24,373)
Related to:		
Operating activities	$ 23,082	$ 1,440
Investing activities	15,249	(25,813)
	$ 38,331	$ (24,373)

21. Commitments

The following is a summary of the Company's commitments as at December 31, 2021:

	Total	2022	2023	2024	2025	2026	Thereafter
Transportation [1]	$ 963,686	$ 115,361	$ 122,228	$ 112,942	$ 113,562	$ 110,430	$ 389,163
Processing [1]	1,133,612	73,040	82,205	91,089	76,863	70,886	739,529
Office lease [2]	4,232	948	999	857	151	151	1,126
Total commitments [3]	$ 2,101,530	$ 189,349	$ 205,432	$ 204,888	$ 190,576	$ 181,467	$ 1,129,818

[1] Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling $24.2 million at December 31, 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.

22. Personnel expenses

Key management personnel include the Board of Directors and executive officers of the Company. The compensation included in general and administrative expenses relating to key management personnel for the year was comprised of the following:

	2021	2020
Salaries, wages and short-term benefits	$ 4,874	$ 3,297
Share-based payments [1]	9,471	82
Total	$ 14,345	$ 3,379

[1] Represents the amortization of share-based compensation expense as recorded in the financial statements.

23. Presentation of expenses

The Company's statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both operating and general and administrative expenses.

The following table details the amount of total employee compensation costs included in the operating, general and administrative expenses and share-based compensation in the statement of loss and comprehensive loss:

		2021		2020
Operating	$	2,775	$	2,542
General and administrative		17,602		12,774
Share-based compensation		12,846		5,238
Total employee compensation costs	$	33,223	$	20,554

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

Kate Holzhauser
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

Odyssey Trust Company
Calgary, Alberta

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”)
“NVA”

2500, 525 8 AVE SW
Calgary, Alberta, Canada
T2P 1G1

Telephone: (403) 538-8500
Facsimile (403) 538-8505
www.nuvistaenergy.com