

**NUVISTA ENERGY LTD.**

**Condensed Statements of Financial Position**  
(Unaudited)

(\$Cdn thousands)	<b>June 30</b>	December 31
	<b>2018</b>	2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable and prepaid expenses	46,778	47,941
Financial derivative assets (note 14)	879	—
	<b>47,657</b>	47,941
Financial derivative assets (note 14)	49,784	28,387
Exploration and evaluation assets (note 5)	58,852	64,298
Property, plant and equipment (note 6)	1,165,473	1,027,116
Deferred tax asset	6,951	18,677
<b>Total assets</b>	<b>\$ 1,328,717</b>	<b>\$ 1,186,419</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 86,011	\$ 49,990
Accrued environmental remediation liabilities (note 4)	694	735
Current portion of asset retirement obligations (note 9)	15,400	14,250
Financial derivative liabilities (note 14)	34,292	4,533
	<b>136,397</b>	69,508
Long-term debt (note 7)	13,103	125,725
Senior unsecured notes (note 8)	215,414	67,680
Other liabilities (note 13)	2,335	1,747
Financial derivative liabilities (note 14)	3,598	—
Asset retirement obligations (note 9)	57,384	58,180
	<b>428,231</b>	322,840
<b>Shareholders' equity</b>		
Share capital (note 10)	821,215	1,276,426
Contributed surplus	50,578	49,545
Retained earnings (deficit) (note 10)	28,693	(462,392)
	<b>900,486</b>	863,579
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,328,717</b>	<b>\$ 1,186,419</b>

Subsequent events (note 14)  
Commitments (note 16)

See accompanying notes to the condensed interim financial statements.

**NUVISTA ENERGY LTD.**

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

(\$Cdn thousands, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
<b>Revenues</b>				
Petroleum and natural gas (note 12)	\$ 137,131	\$ 79,401	\$ 261,887	\$ 163,637
Royalties	(4,311)	(2,356)	(6,143)	(5,072)
<b>Net revenue from petroleum and natural gas sales</b>	<b>132,820</b>	<b>77,045</b>	<b>255,744</b>	<b>158,565</b>
Realized gain (loss) on financial derivatives	(8,911)	1,190	(14,201)	1,209
Unrealized gain (loss) on financial derivatives	(22,216)	12,589	(11,081)	32,883
<b>Net revenue from petroleum and natural gas sales and gains (losses) on financial derivatives</b>	<b>101,693</b>	<b>90,824</b>	<b>230,462</b>	<b>192,657</b>
<b>Expenses</b>				
Transportation	11,013	7,259	20,455	13,295
Operating	33,949	24,694	66,518	50,475
General and administrative	4,516	4,053	9,104	8,155
Share-based compensation (note 13)	2,253	1,514	3,543	2,664
Depletion, depreciation, amortization (note 6)	34,473	26,751	71,351	53,950
Exploration and evaluation (note 5)	1,454	44	1,454	44
Loss (gain) on property dispositions	146	262	146	(3,292)
Environmental remediation recovery (note 4)	—	(2,550)	—	(2,550)
Financing costs	4,647	3,030	17,472	5,832
	<b>92,451</b>	<b>65,057</b>	<b>190,043</b>	<b>128,573</b>
<b>Earnings before taxes</b>	<b>9,242</b>	<b>25,767</b>	<b>40,419</b>	<b>64,084</b>
Deferred income tax expense	2,920	—	11,726	—
<b>Net earnings and comprehensive income</b>	<b>\$ 6,322</b>	<b>\$ 25,767</b>	<b>\$ 28,693</b>	<b>\$ 64,084</b>
<b>Net earnings per share (note 11)</b>				
Basic	\$ 0.04	\$ 0.15	\$ 0.16	\$ 0.37
Diluted	\$ 0.04	\$ 0.15	\$ 0.16	\$ 0.37

See accompanying notes to the condensed interim financial statements.

**NUVISTA ENERGY LTD.**

**Condensed Statements of Changes in Shareholders' Equity**  
(Unaudited)

(\$Cdn thousands)	Six months ended June 30	
	2018	2017
<b>Share capital (note 10)</b>		
Balance, January 1	\$ 1,276,426	\$ 1,265,988
Issued for cash on exercise of stock options	4,439	2,085
Contributed surplus transferred on exercise of stock options	1,542	724
Conversion of restricted share awards	1,200	882
Share issue costs	—	(1)
Elimination of deficit (note 10)	(462,392)	—
Balance, end of period	\$ 821,215	\$ 1,269,678
<b>Contributed surplus</b>		
Balance, January 1	\$ 49,545	\$ 46,801
Share-based compensation	3,775	3,032
Transfer to share capital on exercise of stock options	(1,542)	(724)
Conversion of restricted share awards	(1,200)	(882)
Balance, end of period	\$ 50,578	\$ 48,227
<b>Retained earnings (deficit)</b>		
Balance, January 1	\$ (462,392)	\$ (556,760)
Net earnings	28,693	64,084
Elimination of deficit (note 10)	\$ 462,392	—
Balance, end of period	\$ 28,693	\$ (492,676)
<b>Total shareholders' equity</b>	<b>\$ 900,486</b>	<b>\$ 825,229</b>

See accompanying notes to the condensed interim financial statements.

## NUVISTA ENERGY LTD.

### Statement of Cash Flows (Unaudited)

(\$Cdn thousands)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income	\$ 6,322	\$ 25,767	\$ 28,693	\$ 64,084
Items not requiring cash from operations:				
Depletion, depreciation, amortization	34,473	26,751	71,351	53,950
Exploration and evaluation	1,454	44	1,454	44
Loss (gain) on property dispositions	146	262	146	(3,292)
Share-based compensation (note 13)	1,548	1,273	2,955	2,423
Unrealized gain on financial derivatives	22,216	(12,589)	11,081	(32,883)
Deferred income tax expense	2,920	—	11,726	—
Accretion (note 9)	393	360	797	796
Asset retirement expenditures (note 9)	(1,087)	(1,156)	(7,943)	(11,059)
Change in non-cash working capital	(4,809)	(414)	8,610	2,261
	<b>63,576</b>	<b>40,298</b>	<b>128,870</b>	<b>76,324</b>
<b>Financing activities</b>				
Issue of share capital, net of share issue costs	3,406	1,978	4,439	2,084
Increase (repayment) of long-term debt	13,103	32,103	(112,622)	93,082
Issuance of senior unsecured notes, net of financing costs	—	—	215,142	—
Repayment of senior unsecured notes	—	—	(67,680)	—
	<b>16,509</b>	<b>34,081</b>	<b>39,279</b>	<b>95,166</b>
<b>Investing activities</b>				
Property, plant and equipment expenditures	(79,695)	(68,733)	(194,235)	(175,974)
Exploration and evaluation expenditures	(2,627)	(517)	(3,307)	(688)
Property acquisitions	—	(234)	—	(234)
Proceeds on property dispositions	—	528	—	824
Change in non-cash working capital	(3,217)	(5,423)	29,393	(759)
	<b>(85,539)</b>	<b>(74,379)</b>	<b>(168,149)</b>	<b>(176,831)</b>
Change in cash and cash equivalents	(5,454)	—	—	(5,341)
Cash and cash equivalents, beginning of year	5,454	—	—	5,341
<b>Cash and cash equivalents, end of year</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
Cash interest paid	\$ 566	\$ 2,484	\$ 11,816	\$ 4,690

See accompanying notes to the condensed interim financial statements.

**NUVISTA ENERGY LTD.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

Three and six months ended June 30, 2018 with comparative figures for 2017. All tabular amounts are in thousands of Canadian dollars, except share and per share amounts, unless otherwise stated.

**1. Corporate information**

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

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

**2. Basis of preparation**

These condensed interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting". These financial statements have been prepared following the same accounting policies, except for the adoption of IFRS 15 - *Revenue from Contracts with Customers* and IFRS 9 - *Financial Instruments*, and methods of computation as the annual financial statements for the year ended December 31, 2017. These financial statements do not include all the information required for annual financial statements and should be read in conjunction with the audited financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were approved and authorized for issuance by the Board of Directors on August 7, 2018.

**3. Changes in significant accounting policies**

*Revenue recognition*

NuVista adopted IFRS 15 - Revenue from Contracts with Customers with a date of initial application of January 1, 2018. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring enhanced disclosures about revenue. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser.

NuVista's management reviewed its revenue streams and major contracts with customers and concluded that there were no material changes to its net income or in the timing of when revenue is recognized. As a result, no adjustments were required in the January 1, 2018 opening statement of financial position. The additional disclosures required by IFRS 15 are provided in Note 12 of the condensed interim financial statements.

NuVista's petroleum and natural gas revenue from the sale of natural gas, condensate, 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 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.

#### *Financial instruments*

NuVista adopted IFRS 9 - Financial Instruments, on January 1, 2018 using the retrospective method. The adoption of this standard did not result in a change in the recognition or measurement of any of the Company's financial instruments on transition. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). Under IFRS 9, 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 other comprehensive income or loss rather than net income or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is subsequently measured at amortized cost if it meets both of the following conditions: a) the asset is held with a business model whose objective is to hold assets to collect contractual cash flows; and b) 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 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 are subsequently measured at FVTPL. There was no change to the measurement categories of financial liabilities. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The new standard also introduces an expected credit loss model for evaluating impairment of financial assets, which results in credit losses being recognized earlier than under IAS 39. In addition, IFRS 9 provides a hedge accounting model that is more in line with risk management activities. The Company currently does not apply hedge accounting to its derivative contracts. Accounts receivable and prepaid expenses continue to be measured at amortized cost and are now classified as "amortized cost". There was no change to the Company's classification of accounts payable and accrued liabilities or long term debt and senior unsecured notes which are classified as "other financial liabilities" and are measured at amortized cost.

#### *Future accounting pronouncements*

In January 2016, the IASB issued IFRS 16 "Leases" which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying for IFRS 15 "Revenue from Contracts with Customers". IFRS 16 will be applied by NuVista on January 1, 2019 and the Company is currently in the process of reviewing and analyzing contracts that fall into the scope of the new standard. The extent of the impact of the adoption of the standard has not yet been determined.

#### 4. Accrued environmental remediation liabilities

	June 30, 2018	December 31, 2017
Balance, January 1	\$ 735	\$ 846
Remediation costs incurred	(41)	(111)
Balance, end of period	\$ 694	\$ 735

During the third quarter of 2015, the Company identified a leak in a remote pipeline carrying oil emulsion in the non core area of Northwest Alberta. The pipeline was immediately shut down and the Company's emergency response plan was activated. The Company recorded \$9.3 million in environmental remediation expense in 2015. To date, \$8.6 million has been spent. It is anticipated that the majority of the remaining remediation will occur throughout 2018. In the second quarter of 2017, the Company received insurance proceeds related to this event in the amount of \$2.6 million. These proceeds have been recognized as environmental remediation recovery.

#### 5. Exploration and evaluation assets

	June 30, 2018	December 31, 2017
Balance, January 1	\$ 64,298	\$ 73,667
Additions	3,307	5,817
Dispositions	—	(2,921)
Capitalized share-based compensation (note 13)	150	1,211
Transfers to property, plant and equipment (note 6)	(7,449)	(5,117)
Expiries (exploration and evaluation expense)	(1,454)	(6,932)
Impairment	—	(1,427)
Balance, end of period	\$ 58,852	\$ 64,298

At June 30, 2018, there were no indicators of impairment in NuVista's E&E assets, therefore an impairment test was not performed.

## 6. Property, plant and equipment

	June 30, 2018	December 31, 2017
<b>Cost</b>		
Balance, January 1	\$ 1,671,300	\$ 1,406,357
Additions	194,235	314,535
Dispositions	(562)	(63,237)
Capitalized share-based compensation (note 13)	670	—
Change in asset retirement obligations (note 9)	7,514	8,528
Transfers from exploration and evaluation assets (note 5)	7,449	5,117
Balance, end of period	\$ 1,880,606	\$ 1,671,300

	June 30, 2018	December 31, 2017
<b>Accumulated depletion, depreciation and amortization</b>		
Balance, January 1	\$ 644,184	\$ 557,361
Depletion, depreciation and amortization expense	71,351	135,588
Dispositions	(402)	(48,765)
Balance, end of period	\$ 715,133	\$ 644,184

	June 30, 2018	December 31, 2017
<b>Carrying value</b>		
Balance, January 1	\$ 1,027,116	\$ 848,996
Balance, end of period	\$ 1,165,473	\$ 1,027,116

During the six months ended June 30, 2018, there were no indicators of impairment or reversal of impairment identified on any of the Company's CGU's within property, plant & equipment, therefore an impairment test was not performed.

## 7. Long-term debt

At June 30, 2018, the Company had a \$310.0 million (December 31, 2017 - \$310 million) extendible revolving term credit facility available from a syndicate of Canadian chartered banks. Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin. For the six months ended June 30, 2018, borrowing costs averaged 3.4% (December 31, 2017 – 3.0%). The credit facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a review of the maximum borrowing amount occurs annually on or before April 30 and semi-annually on or before October 31. During the term period, no principal payments would be required until a year after the revolving period matures on April 30, in the event of a reduction or the credit facility not being renewed.

As at June 30, 2018, the Company had drawn \$13.1 million on its credit facility (December 31, 2017 – \$125.7 million) and had outstanding letters of credit of \$5.7 million, which reduce the credit available on the credit facility. The credit facility does not contain any financial covenants, but the Company is subject to various non-financial covenants under its credit facility. These covenants are monitored on a regular basis and as at June 30, 2018, the Company was in compliance with all covenants.



The annual review was completed in April 2018 with no changes to the amount and terms of the credit facility. The next semi-annual review is scheduled for on or before October 31, 2018.

## 8. Senior unsecured notes

On March 2, 2018, the Company issued \$220.0 million aggregate principal amount of 6.50% senior unsecured notes due March 2, 2023 ("2023 Notes"). Interest is payable semi-annually in arrears. The 2023 Notes are fully and unconditionally guaranteed as to the payment of principal and interest, on a senior unsecured basis by the Company. There are no maintenance or financial covenants.

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

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

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

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

## 9. Asset retirement obligations

The Company's asset retirement obligations are based on estimated costs to reclaim and abandon ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. At June 30, 2018, the estimated total undiscounted, uninflated amount of cash flows required to settle the asset retirement obligations is \$74.8 million (December 31, 2017 – \$75.9 million), which is estimated to be incurred over the next 50 years. A risk-free rate of 2.2% (December 31, 2017 – 2.4%) and an inflation rate of 2.0% (December 31, 2017 – 2.0%) were used to calculate the net present value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

	<b>June 30, 2018</b>	December 31, 2017
Balance, January 1	\$ 72,430	\$ 75,463
Accretion expense	797	1,524
Liabilities incurred	2,021	3,698
Liabilities disposed	(14)	(3,272)
Change in estimates and discount rate	5,493	4,830
Liabilities settled	(7,943)	(9,813)
Balance, end of period	\$ 72,784	\$ 72,430
Expected to be incurred within one year	\$ 15,400	\$ 14,250
Expected to be incurred beyond one year	\$ 57,384	\$ 58,180

## 10. Share capital

### Common shares

	June 30, 2018		December 31, 2017	
	Number	Amount	Number	Amount
Balance, January 1	174,003,588	\$ 1,276,426	172,745,647	\$ 1,265,988
Issued for cash on exercise of stock options	685,724	4,439	1,022,022	5,738
Contributed surplus transferred on exercise of stock options	—	1,542	—	1,976
Conversion of restricted share awards	192,086	1,200	235,919	1,422
Share issue costs, net of deferred tax benefit of \$nil (2017 – \$nil)	—	—	—	1,302
Elimination of deficit	—	(462,392)	—	—
Balance, end of period	174,881,398	\$ 821,215	174,003,588	\$ 1,276,426

At the Company's annual general meeting on May 8, 2018, shareholders approved a resolution to reduce share capital for accounting purposes, without payment of or a reduction to stated or paid-up capital, by the amount of the deficit on December 31, 2017 of \$462.4 million.

## 11. Earnings per share

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

(thousands of shares)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Weighted average common shares outstanding				
Basic	174,433	173,013	174,267	172,887
Diluted	175,599	173,688	175,264	173,563

## 12. Petroleum and natural gas revenue

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

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

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

Under its contracts with customers, NuVista is required to deliver volumes of natural gas, condensate, and NGLs to agreed upon locations where control over the delivered volumes is transferred to the customer. In instances where the third party marketer takes title of NuVista's product but uses NuVista's pipeline contract to deliver the

product to the end customer, a portion of the natural gas revenue is recognized as natural gas price diversification revenue. Revenue is recognized when control of each unit of product is transferred to the customer with revenue due on the 25th day of the month following delivery.

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

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Natural gas revenue <sup>(1)</sup>	\$ 39,346	\$ 30,945	\$ 81,082	\$ 64,489
Condensate revenue	87,729	45,242	162,754	92,955
NGL revenue <sup>(2)</sup>	10,056	3,214	18,051	6,193
<b>Total petroleum and natural gas revenue</b>	<b>\$ 137,131</b>	<b>\$ 79,401</b>	<b>\$ 261,887</b>	<b>\$ 163,637</b>

<sup>(1)</sup> Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the three and six months ended June 30, 2018, our physical delivery sales contracts resulted in gains of \$7.3 million gain and \$11.4 million (2017 – \$3.0 million gain and \$5.4 million gain).

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

A breakdown of natural gas revenues is as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Natural gas revenue - AECO reference price <sup>(1)</sup>	\$ 12,268	\$ 23,236	\$ 34,362	\$ 49,189
Heat/value adjustment <sup>(2)</sup>	1,201	2,336	3,184	4,630
Transportation revenue <sup>(3)</sup>	6,963	1,541	12,068	3,043
Natural gas market diversification revenue	11,659	821	20,062	2,270
AECO physical delivery price risk management gains	7,255	3,011	11,406	5,357
<b>Total natural gas revenue</b>	<b>\$ 39,346</b>	<b>\$ 30,945</b>	<b>\$ 81,082</b>	<b>\$ 64,489</b>

<sup>(1)</sup> Quarter average AECO 7A monthly index.

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

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

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

Included in the accounts receivable at June 30, 2018 is \$41.9 million (June 30, 2017 - \$27.7 million) of accrued petroleum and natural gas revenue related to deliveries for periods prior to the reporting date. There were no significant adjustments for prior period accrued petroleum and natural gas revenue reflected in the Company's current period.

### 13. Share-based compensation

#### Stock Options

The Company has established a stock option plan whereby officers, directors and employees may be granted options to purchase common shares. Options granted vest at the rate of 1/3 per year and expire 2.5 years after the vesting date. The maximum number of stock options currently outstanding and available to be issued as at June 30, 2018 is 8.5 million. The following continuity table summarizes the stock option activity:

	June 30, 2018		December 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, January 1	6,478,308	\$ 7.43	6,368,178	\$ 7.09
Granted	678,563	9.25	1,773,080	7.92
Exercised	(685,724)	6.47	(1,022,022)	5.61
Forfeited	(35,919)	7.61	(303,371)	7.55
Expired	(241,044)	9.52	(337,557)	8.96
Balance, end of period	6,194,184	\$ 7.65	6,478,308	\$ 7.43
Weighted average share price on date of exercise	685,724	\$ 8.93	1,022,022	\$ 7.51

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2018:

Range of exercise price	Options outstanding			Options exercisable	
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$4.24 to \$4.99	489,060	2.2	\$ 4.25	271,242	\$ 4.25
\$5.00 to \$9.99	5,378,719	2.9	7.77	2,327,987	7.62
\$10.00 to \$11.45	326,405	0.9	10.78	326,405	10.78
<b>\$4.24 to \$11.45</b>	<b>6,194,184</b>	<b>2.7</b>	<b>\$ 7.65</b>	<b>2,925,634</b>	<b>\$ 7.66</b>

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

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

	June 30, 2018	December 31, 2017
Risk-free interest rate (%)	2.21	1.24
Expected volatility (%)	51	52
Expected life (years)	4.5	4.5
Forfeiture rate (%)	11	12
Fair value at grant date (\$ per option)	4.32	3.41

#### Share Award Incentive Plan

The Company has a Share Award Incentive Plan ("the Plan") for employees and officers consisting of Restricted Share Awards ("RSA") and Performance Share Awards ("PSA"). The maximum number of common shares reserved for issuance under the Plan is 3,750,000 of which 2,811,895 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.

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:

	<b>June 30, 2018</b>	December 31, 2017
Balance, January 1	<b>645,992</b>	594,026
Settled	<b>(192,086)</b>	(235,919)
Granted	<b>141,953</b>	322,750
Forfeited	<b>(13,038)</b>	(34,865)
Balance, end of period	<b>582,821</b>	645,992

#### *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:

	<b>June 30, 2018</b>	December 31, 2017
Balance, January 1	—	—
Granted	<b>148,570</b>	—
Forfeited	<b>(1,022)</b>	—
Balance, end of period	<b>147,548</b>	—

#### *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:

	<b>June 30, 2018</b>	December 31, 2017
Balance, January 1	<b>217,847</b>	102,195
Granted	<b>38,193</b>	115,652
Balance, end of period	<b>256,040</b>	217,847

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

	<b>June 30, 2018</b>	December 31, 2017
Balance, January 1	\$ 1,747	\$ 709
Change in accrued compensation liabilities	<b>588</b>	1,038
Balance, end of period	<b>\$ 2,335</b>	\$ 1,747

Compensation liability resulting from DSUs granted in the six months ended June 30, 2018, increased due to an increase in the number of DSUs granted and an increase in the closing share price used to value the liability at the end of the period, from \$8.02 at December 31, 2017 to \$9.12 at June 30, 2018.

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

	<b>2018</b>					<b>Six months ended June 30</b>				
	<b>Stock option</b>	<b>DSU</b>	<b>RSA</b>	<b>PSA</b>	<b>Total</b>	<b>Stock option</b>	<b>DSU</b>	<b>RSA</b>	<b>PSA</b>	<b>Total</b>
Share-based compensation	\$ 1,959	\$ 588	\$ 951	\$ 45	\$ 3,543	\$ 1,674	\$ 241	\$ 749	\$ —	\$ 2,664
Capitalized share-based compensation	\$ 538	\$ —	\$ 269	\$ 13	\$ 820	\$ 410	\$ —	\$ 198	\$ —	\$ 608

During both the six months ended June 30, 2018 and June 30, 2017, there were no cash settled DSUs.

## 14. Risk management activities

### (a) Financial instruments

The Company's financial instruments recognized on the statement of financial position consists of cash and cash equivalents, accounts receivable and prepaid expenses, financial derivative contracts, accounts payable and accrued liabilities, accrued environmental remediation liabilities, compensation liabilities, long-term debt and senior unsecured notes. The carrying value of the long-term debt approximates its fair value as it bears interest at market rates. Except for the financial derivative contracts and compensation liabilities, which are recorded at fair value, carrying values reflect the current fair value of the Company's financial instruments due to their short-term maturities. The estimated fair values of recognized financial instruments have been determined based on quoted market prices when available, or third-party models and valuation methodologies that use observable market data.

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

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

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

(b) Financial assets and financial liabilities subject to offsetting

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

	June 30, 2018			December 31, 2017		
	Gross financial assets	Gross financial liabilities	Net financial assets	Gross financial assets	Gross financial liabilities	Net financial assets
Current assets (liabilities)	\$ 879	\$ (34,292)	\$ (33,413)	\$ 7,611	\$ (12,144)	\$ (4,533)
Long-term assets (liabilities)	49,784	(3,598)	46,186	29,732	(1,345)	28,387
Net position	\$ 50,663	\$ (37,890)	\$ 12,773	\$ 37,343	\$ (13,489)	\$ 23,854

(c) Risk management contracts

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

	June 30, 2018	December 31, 2017
Fair value of contracts, beginning of year	\$ 23,854	\$ (7,770)
Change in the fair value of contracts in the period	(25,282)	36,688
Fair value of contracts realized in the period	14,201	(5,064)
Fair value of contracts, end of period	\$ 12,773	\$ 23,854
Financial derivative assets – current	\$ (33,413)	\$ (4,533)
Financial derivative assets – long term	\$ 46,186	\$ 28,387

The following is a summary of the financial derivatives as at June 30, 2018:

Term <sup>(1)</sup>	WTI fixed price swap		WTI fixed price swap		Currency derivatives	
	Bbls/d	Cdn\$/Bbl	Bbls/d	US\$/Bbl	US\$/Mo	CAD/USD
2018 remainder	7,200	71.25	1,000	50.24	2,000,000	1.3036
2019	3,343	74.16	—	—	—	—

<sup>(1)</sup> Table presented as weighted average volumes and prices.

Term <sup>(1)</sup>	C\$ WTI 3 Way Collar			
	Bbls/d	Cdn\$/Bbl	Cdn\$/Bbl	Cdn\$/Bbl
2019	500	65.80	78.80	91.42

<sup>(1)</sup> Table presented as weighted average volumes and prices.

Term <sup>(1)</sup>	AECO-NYMEX basis swap		Chicago-NYMEX basis swap		Malin-NYMEX basis swap		AECO-Malin basis swap		Dawn-Nymex basis swap	
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu
2018 remainder	16,630	(0.66)	10,000	(0.22)	13,315	(0.40)	3,315	0.68	10,027	(0.22)
2019	23,664	(0.86)	10,836	(0.25)	18,329	(0.40)	10,000	0.68	3,342	(0.26)
2020	47,500	(0.96)	15,000	(0.25)	11,667	(0.51)	8,333	0.68	20,000	(0.26)
2021	95,000	(0.98)	15,000	(0.24)	20,000	(0.66)	—	—	20,000	(0.26)
2022	95,000	(0.97)	12,493	(0.24)	16,658	(0.66)	—	—	16,658	(0.26)
2023	100,000	(1.01)	—	—	—	—	—	—	—	—
2024	100,000	(1.00)	—	—	—	—	—	—	—	—

<sup>(1)</sup> Table presented as weighted average volumes and prices.

Term <sup>(1)</sup>	NYMEX fixed price swap		Dawn fixed price swap	
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu
2018 remainder	49,973	2.96	6,630	2.50
2019	33,315	2.80	16,658	2.50

<sup>(1)</sup> Table presented as weighted average volumes and prices.

Subsequent to June 30, 2018 the following is a summary of financial derivatives that have been entered into:

Term <sup>(1)</sup>	C\$ WTI		C\$ WTI 3 Way Collar			
	Bbls/d	Cdn\$/Bbl	Bbls/d	Cdn\$/Bbl	Cdn\$/Bbl	Cdn\$/Bbl
2019	200	82.25	400	70.00	83.00	88.89

<sup>(1)</sup> Table presented as weighted average volumes and prices.

(d) Physical delivery sales contracts

The following is a summary of the physical delivery sales contracts as at June 30, 2018:

Term <sup>(1)</sup>	AECO fixed price swap		Dawn fixed price swap	
	GJ/d	Cdn\$/GJ	GJ/d	Cdn\$/GJ
2018 remainder	38,383	2.72	6,685	3.07

<sup>(1)</sup> Table presented as weighted average volumes and prices.



## 15. Supplemental cash flow information

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Cash provided by (used for):				
Accounts receivable and prepaid expenses	\$ (3,063)	\$ 4,355	\$ 755	\$ (2,440)
Other assets	224	200	407	202
Accounts payable and accrued liabilities	(5,187)	(10,392)	36,841	3,740
	\$ (8,026)	\$ (5,837)	\$ 38,003	\$ 1,502
Related to:				
Operating activities	\$ (4,809)	\$ (414)	\$ 8,610	\$ 2,261
Investing activities	(3,217)	(5,423)	29,393	(759)
	\$ (8,026)	\$ (5,837)	\$ 38,003	\$ 1,502

## 16. Commitments

The following is a summary of the Company's commitments as at June 30, 2018:

	Total	2018	2019	2020	2021	2022	Thereafter
Transportation and processing <sup>(1)</sup>	\$ 954,393	\$ 43,914	\$ 95,064	\$ 97,318	\$ 104,255	\$ 104,243	\$ 509,599
Office lease	13,720	907	1,814	1,826	1,887	1,893	5,393
Total commitments	\$ 968,113	\$ 44,821	\$ 96,878	\$ 99,144	\$ 106,142	\$ 106,136	\$ 514,992

<sup>(1)</sup> Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$5.3 million at June 30, 2018 (December 31, 2017 - \$12.8 million).