

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") of financial conditions and results of operations should be read in conjunction with NuVista Energy Ltd.'s ("NuVista" or the "Company") interim financial statements for the three and six months ended June 30, 2020 and audited statements for the year ended December 31, 2019. The following MD&A of financial condition and results of operations was prepared at and is dated August 4, 2020. Our December 31, 2019 audited financial statements, Annual Information Form and other disclosure documents are available through our filings on SEDAR at www.sedar.com or can be obtained from our website at www.nuvistaenergy.com.

Basis of presentation

Unless otherwise noted, the financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") also known as International Financial Reporting Standards ("IFRS"). The reporting and measurement currency is the Canadian dollar. Natural gas is converted to a barrel of oil equivalent ("Boe") using six thousand cubic feet of gas to one barrel of oil. In certain circumstances natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("Mcf") on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and Mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value. National Instrument 51-101 - "Standards of Disclosure for Oil and Gas Activities" includes condensate within the product type of natural gas liquids. NuVista has disclosed condensate values separate from natural gas liquids herein as NuVista believes it provides a more accurate description of NuVista's operations and results therefrom.

Advisory regarding forward-looking information and statements

This MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable securities laws. The use of any of the words "will", "expects", "believe", "plans", "potential" and similar expressions are intended to identify forward-looking statements. More particularly and without limitation, this MD&A contains forward looking statements, including management's assessment of: NuVista's future focus, strategy, plans, opportunities and operations; our Covid-19 response plans and goals; plans to maintain an adequate level of liquidity to manage our business; expectations that our liquidity will significantly improve through to the end of 2020; expectations with respect to future liquidity; 2020 capital expenditure plans; the effect of our financial, commodity, and natural gas risk management strategy and market diversification; NuVista's future exposure to AECO; the impact of royalty changes on NuVista's results of operations; the timing of NuVista's next borrowing base review; asset retirement obligations and the amount and timing of such expenditures and the source of funding thereof; plans to maintain sufficient liquidity to support both our on-going operations and a minimal capital program; anticipated adjusted funds flow; targeted net debt to annualized current quarter adjusted funds flow; tax pools and future taxability; plans to monitor NuVista's 2020 business plan and to adjust its 2020 budgeted capital program in the context of commodity prices and net debt levels; industry conditions and commodity prices. By their nature, forward-looking statements are based upon certain assumptions and are subject to numerous risks and uncertainties, some of which are beyond NuVista's control, including the impact of general economic conditions, industry conditions, current and future commodity prices, currency and interest rates, anticipated production rates, borrowing, operating and other costs and adjusted funds flow, the timing, allocation and amount of capital expenditures and the results therefrom, anticipated reserves and the imprecision of reserve estimates, the performance of existing wells, the success obtained in drilling new wells, the sufficiency of budgeted capital expenditures in carrying out planned activities, access to infrastructure and markets, competition from other industry

participants, availability of qualified personnel or services and drilling and related equipment, stock market volatility, effects of regulation by governmental agencies including changes in environmental regulations, tax laws and royalties; the ability to access sufficient capital from internal sources and bank and equity markets; and including, without limitation, those risks considered under "Risk Factors" in our Annual Information Form. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. NuVista's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, or if any of them do so, what benefits NuVista will derive therefrom. NuVista has included the forward-looking statements in this MD&A in order to provide readers with a more complete perspective on NuVista's future operations and such information may not be appropriate for other purposes. NuVista disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Non-GAAP measurements

Within the MD&A, references are made to terms commonly used in the oil and natural gas industry. Management uses "adjusted funds flow", "adjusted funds flow per share", "operating netback", "corporate netback", "capital expenditures", "free adjusted funds flow" and "net debt" to analyze performance and leverage. These terms do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further information refer to the section "Non-GAAP measures" within this MD&A. Free adjusted funds flow is forecast adjusted funds flow less capital expenditures required to maintain production.

Description of business

NuVista is an exploration and production company actively engaged in the development, delineation and production of condensate, natural gas liquids ("NGL"), 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 ("Wapiti Montney"). The common shares of NuVista trade on the Toronto Stock Exchange ("TSX") under the symbol NVA.

Quarter highlights, current market conditions, and outlook

In March 2020, the World Health Organization declared COVID-19 to be a pandemic. Responses to the spread of COVID-19 have resulted in a sudden decline in economic activity and a significant increase in economic uncertainty. In addition, oil prices have declined dramatically due to the global oil price war and decline in demand due to COVID-19. These events have resulted in a volatile and challenging economic environment which has adversely affected NuVista's operational results and financial position.

In these unprecedented times, NuVista is focused on two key factors. Firstly, in light of the COVID-19 pandemic, providing a safe environment for all our employees, contractors and for the residents of the communities in which we reside and operate. Secondly, maintaining an adequate level of liquidity to manage our business.

NuVista's Covid-19 business continuity plan is in place and is operating very well. All staff have work-from-home technology capability, and a backup plan is in place to ensure minimum crews for safe field and facility operations in the event the sickness escalates. We have begun returning staff to the office as part of this plan in accordance with Alberta Health guidelines, and we expect to reach approximately 85% office attendance by mid August.

In response to significantly weaker commodity prices in the second quarter and our focus on maximizing the economic value of what we produce and sell, NuVista curtailed production, with second quarter production averaging 50,922 Boe/d, which was significantly lower than our capability of over 60,000 Boe/d. Capital expenditures were also limited at \$21 million for the quarter, with the majority spent only on completing the drilling and completion of pads which were ongoing at the end of the first quarter, when the crisis became acute.

During the second quarter, revenues were significantly impacted by a decline in all commodity pricing, with average petroleum and natural gas revenue of \$14.54/Boe declining by 54% from \$31.39/Boe in the prior year comparative quarter. The commodity price decline was most significant in the average realized condensate price of \$22.46/Bbl, which was impacted by a significant decline in WTI pricing along with a blow out in condensate differential, declining 69% from the prior comparative period where the average realized price was \$73.29/Bbl. This material decline in condensate pricing was the largest contributing factor to adjusted funds flow of \$15 million for the quarter being 77% below \$64 million in the second quarter of 2019. Adjusted funds flow for the quarter was positively impacted and supported by realized gains on financial derivative contracts, higher gas cost allowance credits resulting in lower royalty expense, and reduced G&A expense from a reduction in staff salaries and subsidies received from the Canadian Emergency Wage Subsidy program.

During May, in the midst of the uncertain COVID19 environment, NuVista's credit facility capacity was successfully redetermined at \$475 million. In light of unusually low and volatile oil, condensate, and natural gas prices, NuVista is currently focused on maximizing liquidity and paying down debt. For the remaining six months of 2020, NuVista plans to incur minimal capital expenditures of approximately \$15 to \$25 million which is significantly less than our anticipated adjusted funds flow at strip pricing over the same time period. As a result, our net debt is expected to decrease by approximately \$55-\$60 million from June 30, 2020 to the end of 2020. At June 30, 2020, NuVista had drawn \$429 million on its credit facility. Additionally, NuVista has \$220 million in senior unsecured notes that mature March 2, 2023, providing financial flexibility and certainty with a competitive fixed coupon and remaining 3 year term. NuVista's debt to adjusted funds flow ratio (trailing 12 months) was 3.2x at the end of the second quarter. This is temporarily above our target of 1.5x, hence the focus upon significant debt reduction via free adjusted funds flow.

The onset of COVID-19 and the commodity price war of early 2020 have caused unprecedented reduction and volatility in the demand and prices for WTI oil, condensate, and natural gas. The worldwide and North American industry response has included massive cuts to capital programs, leading to significant destruction of future anticipated supply volumes. Worldwide production supply declines are expected to continue while demand recovers. As such, we anticipate that strip prices for WTI oil, condensate, and Nymex natural gas will continue to improve with time.

NuVista is fortunate that we are well hedged for 2020 in accordance with our normal practices. In aggregate, approximately 40% of forecast condensate & oil production is protected for the rest of 2020, utilizing swaps at a WTI floor price of C\$76.12/Bbl and a further 30% has some protection by three way collars. Approximately 65% of forecast natural gas production is hedged for July to October 2020 at C\$1.92/Mcf (hedged and exported volumes converted to an AECO equivalent price). All volume percentages refer to NuVista production net of royalty volumes. We note the positive revenue impact of the condensate & oil and natural gas hedges, both physical and financial, is approximately \$29 million for the rest of the year using June 30, 2020 strip prices.

As planned, the 15 new wells which were drilled and brought onstream in the first quarter are expected to allow us to offset production declines and therefore achieve 2020 average production of approximately 50,000 Boe/d without any material capital spending through the remainder of this year.

In light of the current low and volatile oil price environment, NuVista continues to significantly limit capital spending. Maintaining liquidity and balance sheet strength is our top priority during these unprecedented times. Capital spending guidance for 2020 is unchanged, in the range of \$165 - \$175 million, including \$15 - \$25 million during the second half of 2020. Adjusted funds flow at current strip prices is expected in the range of \$75 - \$80 million for the second half of 2020, allowing free adjusted funds flow of \$55 - \$60 million to be directed towards the reduction of debt.

NuVista's well and facility capability exceeded 60,000 Boe/d in the second quarter. The company restricted production to 50,922 Boe/d during the second quarter however, as a result of the excessively low pricing experienced during parts of the quarter. Indeed, current and future strip pricing has already recovered significantly. NuVista intends to maintain production at approximately 48,000 to 50,000 Boe/d for the third and

fourth quarters of 2020, in order to maintain annual production at approximately 50,000 Boe/d. We anticipate that all wells will be fully online before the end of the third quarter, at which point natural declines will continue, entering 2021 with a favorable and moderated base annual decline of approximately 30%. We anticipate providing guidance on our 2021 plans this fall.

Operations activity

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Number of wells				
Wells drilled - gross (net) ⁽¹⁾	4 (4.0)	11 (11.0)	22 (22.0)	26 (26.0)
Wells completed - gross (net) ⁽²⁾	0 (0.0)	9 (9.0)	15 (15.0)	24 (24.0)
Wells brought on production - gross (net) ⁽³⁾	6 (6.0)	11 (10.9)	15 (15.0)	20 (19.7)

⁽¹⁾ Based on rig release date.

⁽²⁾ Based on frac end date.

⁽³⁾ Based on first production date of in-line test or on production and tied-in to permanent facilities.

For the three months ended June 30, 2020, NuVista drilled 4 (4.0) Montney condensate rich natural gas wells compared to 11 (11.0) wells in the comparable period of 2019. For the six months ended June 30 2020, NuVista drilled 22 (22.0) Montney condensate rich natural gas wells compared to 26 (26.0) wells in the comparable period of 2019.

All wells in 2020 and 2019 were drilled with a 100% success rate.

Production

	Three months ended June 30			Six months ended June 30		
	2020	2019	% Change	2020	2019	% Change
Natural gas (Mcf/d)	187,119	180,589	4	187,964	169,965	11
Condensate & oil (Bbls/d)	14,231	14,951	(5)	14,783	13,858	7
NGLs (Bbls/d)	5,504	5,342	3	5,391	4,947	9
Total (Boe/d)	50,922	50,391	1	51,501	47,133	9
Condensate, oil & NGLs weighting ⁽¹⁾⁽²⁾	39%	40%		39 %	40 %	
Condensate & oil weighting ⁽²⁾	28%	30%		29 %	29 %	

⁽¹⁾ NGLs include butane, propane and ethane.

⁽²⁾ Product weighting is based on total production.

Production for the three and six months ended June 30, 2020 increased 1% and 9% respectively over the comparative periods of 2019 as a result of production increases from continued successful drilling of Montney wells and production associated with the startup of the Pipestone South compressor station in late September 2019.

NuVista continues to closely monitor liquidity in this weak commodity price environment and in an effort to maximize value, NuVista curtailed production during the second quarter. Second quarter production of 50,922 Boe/d remained consistent with first quarter 2020 production of 52,080 Boe/d, which is significantly lower than our capability for the quarter of over 60,000 Boe/d.

Condensate & oil volume weighting of 28% in the second quarter was consistent with prior year comparative periods, and slightly lower than capability due to the deliberate restriction of high condensate wells.

Pricing

	Three months ended June 30			Six months ended June 30		
	2020	2019	% change	2020	2019	% change
Realized selling prices ^{(1),(2)}						
Natural gas (\$/Mcf)	1.98	2.39	(17)	2.21	3.11	(29)
Condensate & oil (\$/Bbl)	22.46	73.29	(69)	40.67	68.98	(41)
NGLs (\$/Bbl)	9.31	10.13	(8)	9.68	16.59	(42)
Barrel of oil equivalent (\$/Boe)	14.54	31.39	(54)	20.76	33.22	(38)
Benchmark pricing						
Natural gas - AECO 5A daily index (Cdn\$/Mcf)	1.99	1.03	93	2.01	1.83	10
Natural gas - AECO 7A monthly index (Cdn\$/Mcf)	1.91	1.17	63	2.03	1.56	30
Natural gas - NYMEX (monthly) (US\$/MMbtu)	1.72	2.64	(35)	1.83	2.89	(37)
Natural gas - Chicago Citygate (monthly) (US\$/MMbtu)	1.63	2.45	(33)	1.79	2.89	(38)
Natural gas - Dawn (daily) (US\$/MMbtu)	1.63	2.34	(30)	1.69	2.63	(36)
Natural gas - Malin (monthly) (US\$/MMbtu)	1.52	2.18	(30)	1.89	3.03	(38)
Oil - WTI (US\$/Bbl)	27.84	59.81	(53)	37.01	57.36	(35)
Oil - Edmonton Par - (Cdn\$/Bbl)	29.46	73.57	(60)	40.58	70.00	(42)
Condensate - Condensate @ Edmonton (Cdn\$/Bbl)	30.70	74.72	(59)	46.27	70.92	(35)
Condensate - Average C5-WTI differential (US\$/Bbl)	(5.55)	(3.97)	40	(2.69)	(4.19)	(36)
Exchange rate - (Cdn\$/US\$)	1.39	1.34	4	1.37	1.33	3

⁽¹⁾ Prices exclude price risk management realized and unrealized gains and losses on financial derivative commodity contracts but includes gains and losses on physical sale contracts and natural gas price diversification.

⁽²⁾ Prospective January 1, 2020, the average condensate and NGLs selling price is net of fractionation fees and excludes pipeline tariffs that prior to January 1, 2020 were reported net of the selling price. These pipeline tariffs are now included within transportation expenses. Prior year comparatives have been reclassified to conform with current year presentation. For the three and six months ended June 30, 2020, the amount of pipeline tariffs that would have previously been classified net of revenues and is now included in transportation expenses was \$7.5 million and \$14.6 million respectively (2019 - \$6.2 million and \$11.6 million).

The WTI benchmark averaged US\$27.84/Bbl in the second quarter of 2020, 53% below the second quarter of last year and 40% below the first quarter of this year which averaged US\$46.17/Bbl. The outbreak of the coronavirus created a sudden sharp drop in oil demand globally and very weak prices in the second quarter. In April, OPEC and other nations agreed to a 9.7 million Bbl/d production cut to stabilize the global oil market. In June 2020, these cuts were extended for the month of July. Subsequently an agreement was reached to reduce the cuts to 7.7 million starting in August and continue through to December 2020. In the second quarter, North American oil producers immediately began curtailing production with the fall in oil prices, including a significant amount of heavy oil in Canada. This created a significant temporary drop in demand for condensate and pressured condensate prices. Condensate differentials have subsequently improved as the market normalized and as some of the heavy oil production has been brought back online. Condensate prices continued to outperform other liquid prices with the Edmonton marker averaging C\$30.70/Bbl for the quarter.

NYMEX gas prices were down 12% compared to the first quarter of 2020 averaging US\$1.72/MMbtu. A warm winter in many of the key US heating markets meant storage entered the spring at elevated levels. The US increased their LNG export capacity to almost 10 Bcf/d but the onset of the coronavirus reduced demand and exports to approximately 3 Bcf/d by the end of the second quarter. A strong power market and declining US supply has played a role in balancing the market but prices remain weak. A return of LNG exports and continued declining US production should improve prices later this year.

AECO gas prices averaged \$1.91/Mcf in the second quarter of 2020 representing a decrease of 11% from \$2.14/Mcf in the first quarter of 2020 but a 63% increase from the second quarter of 2019. Extremely low storage levels

in Alberta coupled with the continued buildout of the Nova system has allowed for stronger AECO prices relative to the other natural gas benchmark prices.

Revenue

Petroleum and natural gas revenues

(\$ thousands, except % amounts)	Three months ended June 30				Six months ended June 30			
	2020		2019		2020		2019	
	\$	% of total	\$	% of total	\$	% of total	\$	% of total
Natural gas ⁽¹⁾	33,657	50	39,308	27	75,641	39	95,565	34
Condensate & oil	29,080	43	99,716	69	109,411	56	173,015	61
NGLs ⁽²⁾	4,662	7	4,924	3	9,500	5	14,856	5
Total petroleum and natural gas revenues	67,399		143,948		194,552		283,436	

⁽¹⁾ Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the three and six months ended June 30, 2020, our physical delivery sales contracts resulted in losses of \$3.1 million and \$3.2 million respectively (2019 – \$2.4 million gain and \$1.8 million gain).

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

For the three months ended June 30, 2020, petroleum and natural gas revenues decreased 53% from the comparable period of 2019, due primarily to a 54% decrease in average per Boe realized price, partially offset by a 1% increase in production for the quarter.

For the six months ended June 30, 2020, petroleum and natural gas revenue decreased 31% over the comparable period of 2019, due primarily to a 38% decrease in average per Boe realized price, offset by a 9% increase in production.

Condensate & oil volumes averaged 28% of total production in the second quarter of 2020, contributing to 43% of total petroleum and natural gas revenues.

A breakdown of natural gas revenue is as follows:

(\$ thousands, except per unit amounts)	Three months ended June 30				Six months ended June 30			
	2020		2019		2020		2019	
	\$	\$/Mcf	\$	\$/Mcf	\$	\$/Mcf	\$	\$/Mcf
Natural gas revenue - AECO reference price ⁽¹⁾	32,746	1.91	19,041	1.17	68,551	2.03	46,335	1.53
Heat/value adjustment ⁽²⁾	2,706	0.16	1,746	0.11	5,351	0.16	4,093	0.13
Transportation revenue ⁽³⁾	6,970	0.41	7,233	0.44	13,999	0.41	14,522	0.48
Natural gas market diversification revenue (loss)	(5,618)	(0.32)	8,844	0.52	(9,080)	(0.30)	28,819	0.91
AECO physical delivery sales contract gains (losses) ⁽⁴⁾	(3,147)	(0.18)	2,444	0.15	(3,180)	(0.09)	1,796	0.06
Total natural gas revenue	33,657	1.98	39,308	2.39	75,641	2.21	95,565	3.11

⁽¹⁾ 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.

For the three months ended June 30, 2020, natural gas revenue decreased 14% from the comparable period of 2019, due to a 17% decrease in realized selling prices offset by a 4% increase in production. For the six months ended June 30, 2020, natural gas revenue decreased 21% from the comparable period of 2019, due primarily to a 29% decrease in realized selling prices offset by a 11% increase in production.

The Company's second quarter physical natural gas sales portfolio was based on the following physical fixed price contracts or physical market deliveries:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2019	2018
AECO physical deliveries	54 %	45 %	48 %	39 %
Dawn physical deliveries	14 %	23 %	19 %	25 %
Malin physical deliveries	20 %	20 %	21 %	22 %
Chicago physical deliveries	12 %	12 %	12 %	14 %

NuVista receives a premium to the AECO spot gas price due to the higher heat content of its natural gas production. Price risk is also mitigated by the various gas marketing and transportation arrangements that the Company has in place to diversify and gain exposure to alternative natural gas markets in North America. For the three months ended June 30, 2020, the Company delivered 54% of its gas to AECO of which 29% was under AECO physical fixed price delivery sales contracts. NuVista delivered approximately 14% of its natural gas production to Dawn, 20% to Malin, and 12% to Chicago.

NuVista's exposure to AECO floating prices was limited to approximately 25% of volumes in the second quarter of 2020 as a result of this market egress, and the inclusion of pre-existing physical and financial delivery sales contracts. NuVista's existing contracts for firm transportation on export pipelines coupled with the financial NYMEX basis natural gas sales price derivative contracts will result in long term price diversification and exposure to AECO floating pricing limited to approximately 10%-25% of volumes in 2020 and beyond.

Excluding the impact of realized gains (losses) on physical sales contracts, the average selling price for natural gas for the three and six months ended June 30, 2020 was \$2.16/Mcf and \$2.30/Mcf respectively, compared to \$2.24/Mcf and \$3.05/Mcf for the comparative periods of 2019, and \$2.45/Mcf in the first quarter of 2020.

Condensate & oil revenue

For the three months ended June 30, 2020, condensate & oil revenue decreased 71% over the comparable period of 2019 due to a 69% decrease in the average realized selling price and a 5% decrease in production. For the six months ended June 30, 2020, condensate & oil revenue decreased 37% over the comparable period of 2019, due primarily to a 41% decrease in the average realized selling price, partially offset by a 7% increase in production.

Historically, strong demand for condensate & oil in Alberta results in benchmark condensate prices at Edmonton trading at a premium to Canadian light oil prices. NuVista's realized condensate & oil prices include adjustments for fractionation fees and quality differentials. Condensate & oil realized selling prices averaged \$22.46/Bbl and \$40.67/Bbl in the three and six months ended June 30, 2020, a decrease of 69% and 41% from \$73.29/Bbl and \$68.98/Bbl for the comparable periods of 2019.

NGL revenue

For the three months ended June 30, 2020, NGL revenue decreased 5% over the comparable period of 2019, due to a 8% decrease in the average realized selling price, partially offset by a 3% increase in production. For the six months ended June 30, 2020, NGL revenue decreased 36% over the comparable period of 2019, due primarily to a 42% decrease in the average realized selling price, partially offset by a 10% increase in production.

Commodity price risk management

NuVista has a disciplined commodity price risk management program as part of its financial risk management strategy. The purpose of this program is to reduce volatility in financial results and help stabilize adjusted funds flow against the unpredictable commodity price environment. NuVista's Board of Directors has authorized the use of fixed price, put option and costless collar contracts ("Fixed Price Contracts"), and approved the terms of NuVista's commodity price risk management program to allow the securing of minimum prices of the following:

(% of net forecast after royalty production)	First 18 month forward period	Following 18 month forward period	Following 24 month forward period
Natural Gas Fixed Price Contracts	up to 70%	up to 60%	up to 50%
Crude Oil Fixed Price Contracts	up to 70%	up to 60%	up to 30%

The Board of Directors has set limits for entering into natural gas basis differential contracts that are the lesser of 50% of forecast natural gas production, net of royalties, or the volumes that would bring the combined natural gas basis differential contracts and natural gas fixed price contracts to 100% of forecast natural gas production, net of royalties. In addition, a maximum volume of up to 150,000 MMBtu/day has been approved, with a term of 7 years from the date any such swap is entered into.

Hedges on crude oil, natural gas liquids, natural gas, differentials and basis may be made in Canadian or U.S. dollars at the time the position is established and the U.S. dollar positions may be hedged to Canadian dollars during the term of the applicable hedge. Foreign currency exposure on interest payments and long-term debt, if there is that exposure, may also be hedged back to Canadian dollars.

(\$ thousands)	Three months ended June 30					
	2020			2019		
	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)
Natural gas	3,317	(13,330)	(10,013)	2,150	(14,964)	(12,814)
Condensate & oil	23,726	(36,032)	(12,306)	(492)	16,448	15,956
Gain (loss) on financial derivatives	27,043	(49,362)	(22,319)	1,658	1,484	3,142

During the second quarter of 2020, the commodity price risk management program resulted in a total loss of \$22.3 million, compared to a total gain of \$3.1 million for the comparable period of 2019 and a total gain of \$70.0 million in the first quarter of 2020. The fair value of financial derivative contracts is recorded in the financial statements. Unrealized gains and losses are the change in mark to market values or fair value of financial derivative contracts in place at the end of the quarter compared to the start of the quarter. The unrealized loss in the second quarter is primarily as a result of an unrealized loss on oil contracts reflective of the increasing WTI forward strip pricing at the end of the quarter compared to the beginning of the quarter, and an unrealized loss on natural gas contracts due to the narrowing AECO/NYMEX basis forward strip pricing at the end of the quarter compared to the beginning of the quarter. Due to increased volatility in oil and gas prices and the related forward strips pricing, the impact of unrealized gains and/or losses on overall earnings in a particular reporting period can be substantial, as was the case in the second quarter of 2020 and comparative period of 2019.

(\$ thousands)	Six months ended June 30					
	2020			2019		
	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)
Natural gas	4,810	(19,767)	(14,957)	(447)	(37,302)	(37,749)
Condensate & oil	35,701	26,905	62,606	4,812	(28,118)	(23,306)
Gain (loss) on financial derivatives	40,511	7,138	47,649	4,365	(65,420)	(61,055)

For the six months ended June 30, 2020, the commodity price risk management program resulted in a gain of \$47.6 million compared to a loss of \$61.1 million for the comparable period of 2019.

For the remainder of 2020, Nuvista has hedges in place which will provide significant support for our adjusted funds flow. Currently, approximately 9,950 Bbl/d of 2020 condensate & oil production is hedged. This position is comprised of swaps at a floor price of C\$ WTI 76.12/Bbl on 5,700 Bbl/d of Q3-Q4 2020 condensate & oil production, and 3 way collars and put spreads with a floating C\$ WTI +\$12.83/Bbl on 4,250 Bbl/d of Q3-Q4 2020 condensate & oil production. Approximately 95,936 Mcf/d of Q3-Q4 2020 natural gas production is hedged at an average floor price of \$1.95/Mcf.

Price risk management on our physical delivery sale contracts resulted in losses of \$3.1 million and \$3.2 million respectively for the three and six months ended June 30, 2020 compared to gains of \$2.4 million and \$1.8 million for the comparable periods of 2019.

(a) Financial instruments

The following is a summary of financial derivatives contracts in place as at June 30, 2020:

Term ⁽¹⁾	WTI fixed price swap		C\$ WTI Put Spreads		
	Bbls/d	Cdn\$/Bbl	Bbls/d	Cdn\$/Bbl	Cdn\$/Bbl
2020 Remainder	5,700	76.12	1,900	69.26	84.49

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

Term ⁽¹⁾	C\$ WTI 3 Way Collar			
	Bbls/d	Cdn\$/Bbl	Cdn\$/Bbl	Cdn\$/Bbl
2020 Remainder	2,350	62.45	73.34	80.91

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

Term ⁽¹⁾	AECO-NYMEX basis swap		AECO-NYMEX basis buybacks		Chicago-NYMEX basis swap		Malin-NYMEX basis swap	
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu
2020 Remainder	47,500	(0.96)	—	—	15,000	(0.25)	13,315	(0.55)
2021	95,000	(0.98)	(60,000)	(0.82)	15,000	(0.24)	20,000	(0.66)
2022	95,000	(0.97)	(60,000)	(0.82)	12,493	(0.24)	16,658	(0.66)
2023	100,000	(1.01)	—	—	—	—	—	—
2024	100,000	(1.00)	—	—	—	—	—	—
2025	35,000	(1.00)	—	—	—	—	—	—

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

Term ⁽¹⁾	AECO-Malin basis swap		Dawn-NYMEX basis swap	
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu
2020 Remainder	6,685	0.68	10,000	(0.26)
2021	—	—	10,000	(0.26)
2022	—	—	8,329	(0.26)

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

Term ⁽¹⁾	NYMEX fixed price swap		NYMEX collars		
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	US\$/MMbtu
2020 Remainder	41,766	2.66	1,658	3.18	2.50
2021	14,164	2.63	1,233	3.18	2.50

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

Subsequent to June 30, 2020, the following is a summary of financial derivatives that have been entered into:

Term ⁽¹⁾	NYMEX fixed price swap		NYMEX collars		
	MMbtu/d	US\$/MMbtu	MMbtu/d	US\$/MMbtu	US\$/MMbtu
2020 Remainder	—	—	4,973	2.50	2.97
2021	8,795	2.49	3,699	2.50	2.97

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

(b) Physical delivery sales contracts

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

The following is a summary of the physical delivery sales contracts in place as at June 30, 2020:

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

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

Royalties

(\$ thousands, except % and per Boe amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Gross royalties	6,349	10,512	19,295	18,327
Gas cost allowance ("GCA")	(5,842)	(4,474)	(9,276)	(7,713)
Net royalties	507	6,038	10,019	10,614
Gross royalty % excluding physical delivery sales contracts ⁽¹⁾	9.0	7.4	9.8	6.5
Gross royalty % including physical delivery sales contracts	9.4	7.3	9.9	6.5
Net royalties \$/Boe	0.11	1.32	1.07	1.24

⁽¹⁾ Calculated as gross royalties as a % of petroleum and natural gas revenues excluding gains (losses) on physical delivery sales contracts.

For the three months ended June 30, 2020, gross royalties decreased 40% as a result of the 54% decrease in the average \$/Boe realized prices compared to the prior year comparative period. For the six months ended June 30, 2020, gross royalties increased 5% as compared to the comparable period of 2019 as a result of the production

increases over the prior year and the increase in average royalty rates, offset by the decreased average \$/Boe realized pricing. Gross royalties as a percentage of petroleum and natural gas revenues increased as a result of a greater number of wells having fully utilized the royalty incentive programs which carried reduced initial royalty rates. The gross natural gas and liquids (condensate, oil and NGL) royalty rates were 7% and 12% in the second quarter of 2020 compared to 3% and 9% respectively, in the comparative period of 2019.

The Company also receives GCA from the Crown, which reduces royalties to account for expenses incurred by NuVista to process and transport the Crown's portion of natural gas production. For the three and six months ended June 30, 2020, the 31% and 20% increase in GCA credits received compared to the comparative periods of 2019 is primarily due to GCA received in the second quarter related to capital expenditures for gas processing and transportation infrastructure incurred in 2019, primarily related to the Pipestone South compressor station.

NuVista's physical price risk management and gas market diversification activities impact reported average royalty rates as royalties are based on government market reference prices for delivery of product in Alberta and not the Company's average realized prices that include price risk management and gas market diversification activities.

Transportation expenses

(\$ thousands, except per unit amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Natural gas transportation expense	12,537	12,097	25,245	24,156
Condensate, oil & NGL transportation expense	7,630	8,623	14,576	14,472
Total transportation expense	20,167	20,720	39,821	38,628
Natural gas transportation \$/Mcf ⁽¹⁾	0.74	0.74	0.74	0.79
Condensate, oil & NGL transportation \$/Bbl	4.25	4.67	3.97	4.25
Total transportation \$/Boe	4.35	4.52	4.25	4.53

⁽¹⁾ Includes total gas transportation from the plant gate to the final sales point.

For the three and six months ended June 30, 2020, natural gas transportation expenses on a total dollar basis increased from the comparative periods of 2019 due primarily to higher volumes and additional firm commitments for gas transportation. NuVista incurs transportation expenses on these gas volumes, however, historically the tolls have been offset by the higher realized gas prices received at markets outside Alberta. Natural gas transportation \$/Boe has remained consistent compared to the prior year comparative period, and decreased slightly on a year to date basis as a result of the increase in natural gas volumes.

The lower condensate, oil & NGL transportation for the three and six months ended June 30, 2020 as compared to the prior year comparative periods was primarily as a result of higher production volumes and a greater proportion of volumes flowing through third party liquids pipelines, which incurs lower transportation rates than trucked volumes.

Operating expenses

(\$ thousands, except per unit amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Operating expenses	44,762	43,500	92,953	80,237
Per Boe	9.66	9.49	9.92	9.41

For the three and six months ended June 30, 2020, operating expenses increased 3% and 16% as a result of the increased production compared to the prior year comparative periods of 2019. The per Boe costs increased from the comparative periods due to lower industry throughput at midstream processing facilities translating into higher flow through operating costs. Compared to first quarter operating expenses of \$48.2 million (\$10.17/Boe), second

quarter operating expenses per Boe decreased primarily due to cost cutting initiatives and vendor discounts received as a result of the slowdown in industry activity due to the COVID-19 pandemic and uncertain economic environment, and one time prior period 13th month adjustments on partner operated facilities.

In accordance with the adoption of IFRS 16 - *Leases* on January 1, 2019 base rent for the Company's field office is recognized as a lease beginning January 1, 2019. This has resulted in base rent costs in the amount of \$32.0 thousand and \$64.0 thousand in the both the three and six months ended June 30, 2020 and prior year comparative periods being excluded from operating expenses, as the costs are now accounted for under the new lease standard.

The minimum take or pay commitments associated with the gas processing lease and gas transportation lease identified in the third quarter of 2019 is excluded from operating expense and classified as a lease under IFRS 16. For the three and six months ended June 30, 2020, total payments under these two leases of \$3.1 million and \$6.1 million were excluded from operating expenses and accounted for under the new lease standard.

General and administrative expenses ("G&A")

(\$ thousands, except per Boe amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Gross G&A expenses	4,184	5,946	9,980	12,198
Overhead recoveries	(264)	(486)	(771)	(942)
Capitalized G&A	(747)	(1,440)	(1,891)	(3,019)
Net G&A expenses	3,173	4,020	7,318	8,237
Gross G&A per Boe	0.90	1.30	1.06	1.43
Net G&A per Boe	0.68	0.88	0.78	0.97

For the three and six months ended June 30, 2020, gross G&A expenses have decreased significantly as compared to the prior year comparative period as a result of base salary reductions that came in to effect on May 1, 2020 and ongoing cost cutting initiatives in response to challenging economic conditions. During the second quarter, NuVista applied for eligibility under the Federal Government's Canadian Emergency Wage Subsidy Program (CEWS) and received \$0.9 million in wage subsidies offsetting gross G&A expenses and approximately \$0.2 million offsetting operating expenses.

The Company's policy of allocating and capitalizing G&A expenses associated with new capital projects remained unchanged in 2019 and 2020. G&A capitalized and operating recoveries are in accordance with industry practice.

In accordance with the adoption of IFRS 16 - *Leases* on January 1, 2019 base rent for the Company's head office expense is recognized as a lease prospective January 1, 2019. This has resulted in base rent costs for both the three and six months ended June 30, 2020 and the prior year comparative periods in the amount of \$0.2 million and \$0.4 million being excluded from gross G&A expenses, as the costs are now accounted for under the new lease standard.

Share-based compensation expense

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Stock options	710	987	1,503	1,948
Director deferred share units	274	(368)	(1,302)	(241)
Restricted share awards	414	363	813	714
Performance share awards	304	140	574	248
Total	1,702	1,122	1,588	2,669

Share-based compensation expense relates to the amortization of the fair value of stock option awards, performance share awards ("PSA"), restricted share awards ("RSA") and accruals for future payments under the director deferred share unit ("DSU") plan.

The change in share-based compensation for the three and six months ended June 30, 2020 over the prior year comparative periods is due to the change in the valuation of the DSU liability as result of the change in share price from the beginning of the period to the end of the period, incorporating DSUs granted in the period. For the three months ended June 30, 2020, the increase in DSU expense is primarily as a result of the increase in share price from \$0.45/share at March 31, 2020 to \$0.76/share at June 30, 2020. For the six months ended June 30, 2020, the decrease in DSU expense is primarily as a result of the decrease in share price from \$3.19/share at December 31, 2019 to \$0.76/share at June 30, 2020.

Financing costs

(\$ thousands, except per Boe amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Interest on long-term debt (credit facility)	4,124	3,536	7,599	6,748
Interest on senior unsecured notes	3,761	3,771	7,543	7,462
Interest expense	7,885	7,307	15,142	14,210
Lease interest expense	2,559	71	5,129	144
Accretion expense	299	451	710	939
Total financing costs	10,743	7,829	20,981	15,293
Interest expense per Boe	1.70	1.59	1.62	1.67
Total financing costs per Boe	2.32	1.71	2.24	1.79

For the three and six months ended June 30, 2020, interest expense on long-term debt increased from the comparable periods in 2019 due to higher average bank indebtedness. Average interest rates on long-term debt for the three and six months ended June 30, 2020 were 3.1% and 3.4% compared to average interest rates of 3.6% and 3.7% for the comparative periods of 2019. Interest expense on long-term debt includes interest standby charges on the Company's syndicated credit facilities.

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 expense on senior unsecured notes for the three and six months ended June 30, 2020, is for interest paid or accrued at the effective interest rate of 7.0%. The carrying value of the 2023 Notes at June 30, 2020 is \$217.2 million.

Lease interest expense for the three and six months ended June 30, 2020 is from the adoption of IFRS 16 - Leases on January 1, 2019. The weighted average incremental borrowing rate on the office lease liabilities is 5.5%. Two additional leases were identified in the third quarter of 2019 for gas processing and transportation associated with the start up of the Pipestone compressor and pipeline connecting the compressor to the SemCAMS Wapiti plant. The weighted average incremental borrowing rates on these lease liabilities are 8% and 11% respectively.

Operating netback and corporate netback

The tables below summarize operating netback and corporate netback on a total dollar and per Boe basis for the three and six months ended June 30, 2020 and 2019:

(\$ thousands, except per Boe amounts)	Three months ended June 30			
	2020		2019	
	\$	\$/Boe	\$	\$/Boe
Petroleum and natural gas revenues ⁽¹⁾	67,399	14.54	143,948	31.39
Realized gain on financial derivatives	27,043	5.84	1,658	0.36
	94,442	20.38	145,606	31.75
Royalties	(507)	(0.11)	(6,038)	(1.32)
Transportation expense	(20,167)	(4.35)	(20,720)	(4.52)
Operating expense	(44,762)	(9.66)	(43,500)	(9.49)
Operating netback ⁽²⁾	29,006	6.26	75,348	16.42
General and administrative expense	(3,173)	(0.68)	(4,020)	(0.88)
Deferred share units recovery (expense)	(274)	(0.06)	368	0.08
Interest and lease finance expense	(10,444)	(2.25)	(7,378)	(1.61)
Corporate netback ⁽²⁾	15,115	3.27	64,318	14.01

⁽¹⁾ Includes price risk management losses of \$3.1 million (2019 - \$2.4 million gain) on physical delivery sales contracts.

⁽²⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Reference should be made to the section entitled "Non-GAAP measurements".

(\$ thousands, except per Boe amounts)	Six months ended June 30			
	2020		2019	
	\$	\$/Boe	\$	\$/Boe
Petroleum and natural gas revenues ⁽¹⁾	194,552	20.76	283,436	33.22
Realized gain on financial derivatives	40,511	4.32	4,365	0.51
	235,063	25.08	287,801	33.73
Royalties	(10,019)	(1.07)	(10,614)	(1.24)
Transportation expense	(39,821)	(4.25)	(38,628)	(4.53)
Operating expense	(92,953)	(9.92)	(80,237)	(9.41)
Operating netback ⁽²⁾	92,270	9.84	158,322	18.55
General and administrative	(7,318)	(0.78)	(8,237)	(0.97)
Deferred share units recovery	1,302	0.14	241	0.03
Interest expense	(20,271)	(2.16)	(14,354)	(1.68)
Corporate netback ⁽²⁾	65,983	7.04	135,972	15.93

⁽¹⁾ Includes price risk management losses of \$3.2 million (2019 - \$1.8 million gain) on physical delivery sales contracts.

⁽²⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Reference should be made to the section entitled "Non-GAAP measurements".

Cash flow from operating activities and adjusted funds flow

The following table is NuVista's cash flow from operating activities and adjusted funds flow ⁽¹⁾ for the three and six months ended June 30:

(\$ thousands, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Cash flow from operating activities	8,555	81,235	65,900	134,537
Per share, basic	0.04	0.36	0.29	0.60
Per share, diluted	0.04	0.36	0.29	0.60
Adjusted funds flow ⁽¹⁾	15,115	64,318	65,983	135,972
Per share, basic	0.07	0.29	0.29	0.60
Per share, diluted	0.07	0.29	0.29	0.60

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Reference should be made to the section entitled "Non-GAAP measurements".

For the three and six months ended June 30, 2020, cash flow from operating activities of \$8.6 million and \$65.9 million respectively, decreased 89% and 51% from the prior year comparative periods, primarily due to decreased petroleum and natural gas revenues as a result of lower realized pricing, higher interest and operating expenses, offset by higher realized gains on financial derivatives, lower royalties and transportation.

Adjusted funds flow for the three months ended June 30, 2020 and the comparable period of 2019 was \$15.1 million (\$0.07/share, basic) and \$64.3 million (\$0.29/share, basic) respectively, \$6.6 million higher and \$16.9 million lower than cash flow from operating activities in the comparable period, due to changes in asset retirement expenditures and non-cash working capital.

Adjusted funds flow for the six months ended June 30, 2020 and 2019 was \$66.0 million (\$0.29/share, basic) and \$136.0 million (\$0.60/share, basic) respectively, \$0.1 million and \$1.4 million higher than cash flow from operating activities in the comparable period, due to changes in asset retirement expenditures and non-cash working capital.

Depletion, depreciation, amortization ("DD&A") and impairment

(\$ thousands, except per Boe amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Depletion of condensate, oil and natural gas assets	38,902	64,426	83,188	112,028
Depreciation of fixed assets	4,039	4,020	8,468	7,997
Depreciation of right-of-use assets	2,085	198	4,170	396
DD&A expense	45,026	68,644	95,826	120,421
Property, plant and equipment ("PP&E") impairment expense	—	—	886,081	—
Right-of-use asset ("ROU") impairment expense	—	—	23,198	—
Total impairment expense	—	—	909,279	—
Total DD&A and impairment expense	45,026	68,644	1,005,105	120,421
DD&A rate per Boe	9.72	14.97	10.22	14.12

DD&A expense for three and six months ended June 30, 2020 was \$45.0 million (\$9.72/Boe) and \$95.8 million (\$10.22/Boe) compared to \$68.6 million (\$14.97/Boe) and \$120.4 million (\$14.12/Boe) for the comparable periods of 2019, and \$50.8 million (\$10.72/Boe) in the first quarter of 2020. DD&A expense for the three and six months ended June 30, 2020 includes a charge to current quarter depletion in the amount of \$6.3 million (\$1.35/Boe) and a year to date charge of \$9.8 million (\$1.05/Boe) respectively, related to changes in estimates and the impact of the change in discount rate on asset retirement obligations for wells with no remaining reserves that were

previously fully depleted. The full amount of this asset retirement obligation liability change is included in depletion expense.

The Wapiti Montney CGU DD&A rate per Boe for the three and six months ended June 30, 2020 decreased to \$7.74/Boe and \$8.27/Boe compared to \$9.93/Boe and \$9.33/Boe for the comparable periods of 2019, and \$8.78/Boe in the first quarter of 2020. These improved DD&A rates are a result of continued successful development, favorable finding and development costs and the \$880.9 million impairment expense recorded in the first quarter of 2020 relating to Wapiti Montney which reduced the net book value of the CGU.

Depreciation of right-of-use assets is the depreciation of assets recognized for the Company's head office lease in Calgary and the field office lease in Grande Prairie starting on January 1, 2019, with the adoption of IFRS 16 - *Leases* as disclosed in Note 3 of the financial statements, and the addition of the gas processing and transportation leases added in the third quarter. Depreciation on right-of-use assets is recorded on a straight line basis over the term of the lease.

At June 30, 2019, there were no indicators of impairment or reversal of impairment identified on any of the Company's CGU's within property, plant & equipment and an impairment test was not performed.

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

Exploration and evaluation ("E&E") expense

(\$ thousands, except per Boe amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Exploration and evaluation expense	—	—	—	977
Per Boe	—	—	—	0.11

Exploration and evaluation expense relates to the cost of mineral land expiries that were classified as E&E assets.

Asset retirement obligations

(\$ thousands)	June 30, 2020	December 31, 2019
Balance, January 1	124,533	102,703
Accretion expense	710	2,070
Liabilities incurred	3,063	3,831
Liabilities disposed	(584)	(888)
Change in estimates	6,097	36,194
Change in discount rate	9,250	(4,994)
Liabilities settled	(9,974)	(14,383)
Balance, end of period	133,095	124,533
Expected to be incurred within one year	6,890	11,575
Expected to be incurred beyond one year	126,205	112,958

Asset retirement obligations ("ARO") are based on estimated costs to reclaim and abandon ownership interests in condensate, oil and natural gas assets including well sites, gathering systems and processing facilities. At June 30, 2020, NuVista had an ARO balance of \$133.1 million as compared to \$124.5 million as at December 31, 2019. The Bank of Canada's long-term risk-free bond rate of 0.99% (December 31, 2019 – 1.8%) and an inflation rate of 1.01% (December 31, 2019 – 1.4%) were used to calculate the net present value of the asset retirement obligations. At June 30, 2020, the estimated total undiscounted and uninflated amount of cash required to settle NuVista's ARO was \$132.9 million (December 31, 2019 – \$133.8 million) with an estimated 40% to be incurred within the next 10 years. Actual ARO expenditures for the six months ended June 30, 2020 were \$10.0 million compared to \$14.4 million for the year ended December 31, 2019.

The ARO liability was increased by \$8.6 million due to a \$9.3 million change in the discount rate from December 31, 2019 and a \$6.1 million change in estimates, offset by \$10.0 million of liabilities settled in the period. The Company was very active in the first quarter of 2020 in abandonment and reclamation activities, with \$9.7 million of the \$10.0 million year to date expenditures incurred during the first quarter. The Company has recognized a change in estimate resulting in an increase to the ARO liability in the amount of \$6.1 million, primarily as a result of higher costs incurred on some of the abandonment projects in the first quarter and increases in abandonment cost estimates for certain wells in our northwest Alberta area. This change in estimate was included in DD&A expense as there are no reserves booked in these areas where the ARO change in estimate took place.

There are uncertainties related to asset retirement obligations and the impact on the financial statements could be material, as the eventual timing and expected costs to settle these obligations could differ from our estimates. The main factors that could cause expected costs to differ are changes to laws, regulations, reserve estimates, costs and technology. Any reclamation or abandonment expenditures will generally be funded from cash flow from operating activities.

Other receivable

The Company has entered into contracts for the construction of two Pipestone compressor stations, which secured third party ownership and funding of the assets. The other receivable balance of \$22.6 million represents expenses incurred that have not yet been reimbursed related to these assets.

Capital expenditures

(\$ thousands, except % amounts)	Three months ended June 30				Six months ended June 30			
	2020	% of total	2019	% of total	2020	% of total	2019	% of total
Land and retention costs	57	—	97	—	87	—	914	—
Geological and geophysical	1,007	5	1,741	2	2,832	2	3,866	2
Drilling and completion	9,928	48	60,926	68	115,825	77	159,574	86
Facilities and equipment	9,721	47	26,243	30	30,547	21	21,170	12
Corporate and other	52	—	185	—	206	—	245	—
Capital expenditures ⁽¹⁾	20,765		89,192		149,497		185,769	

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Reference should be made to the section entitled "Non-GAAP measurements".

Capital expenditures for the three and six months ended June 30, 2020 were \$20.8 million and \$149.5 million, compared to \$89.2 million and \$185.8 million in the comparative periods of 2019. Included in facilities and equipment in the year ended December 31, 2019 is a credit of \$14.2 million for costs incurred in 2018 that have been reclassified to other receivable. The Company focused the majority of its second quarter capital expenditures on facilities, tie-ins and the completion of the Q1 drilling program.

Of the \$149.5 million capital spent to date in 2020, \$149.2 million was classified as property, plant and equipment additions, and \$0.3 million was classified as exploration and evaluation asset additions.

During the 6 months ended June 30, 2020, the Company entered into a non cash land swap valued at \$9.5 million and the disposition of ARO liabilities, resulting in an accounting loss of \$2.8 million.

Right-of-use assets and lease liabilities

In accordance with the adoption of IFRS 16 - *Leases*, on January 1, 2019, the Company recognized right-of-use assets and lease liabilities for our head and field office leases. In the three months ending September 30, 2019, the Company recognized a gas processing lease associated with the start up of the Pipestone compressor, and a gas transportation lease associated with the pipeline that connects the Pipestone compressor to the SemCAMS Wapiti plant.

At June 30, 2020, the total right-of-use asset, net of impairment expenses recorded in the first quarter of \$23.2 million is \$89.3 million. The total lease liability is \$117.9 million, of which \$4.4 million is classified as a current liability.

Deferred income taxes

Primarily as a result of the impairment expense recognized in the first quarter of 2020 the Company recorded a deferred tax recovery of \$69.2 million in the first quarter that eliminated the deferred tax liability balance at December 31, 2019. Projected future cash flows at current commodity price forecasts are less than the Company's total tax pool balance of \$1.7 billion and as a result, the Company has not recognized a deferred income tax asset. In the prior year comparative period the Company recorded deferred tax recoveries of \$14.1 million and a deferred tax liability of \$26.1 million. The combined federal and provincial corporate tax rate for 2020 is 25.0%.

Net earnings (loss)

(\$ thousands, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Net earnings (loss)	(80,422)	9,301	(869,169)	(26,626)
Per share - basic	(0.36)	0.04	(3.85)	(0.12)
Per share - diluted	(0.36)	0.04	(3.85)	(0.12)

For the three months ended June 30, 2020 the net loss compared to the prior year comparative period net earnings is primarily a result of a \$50.8 million increase in the unrealized hedging loss, decreased adjusted funds flow and a decrease in the deferred income tax recovery, offset by decreased DD&A & impairment.

For the six months ended June 30, 2020, the increase in net loss compared to the prior year comparative period is primarily as a result of decreased adjusted funds flow and increased DD&A & impairment, offset by a \$72.6 million increase in the unrealized gain and an increase in the deferred income tax recovery.

The net earnings (loss) reported is significantly impacted by impairment expense and unrealized gains (losses) on financial derivatives recognized at each period end as a result of the market to market values or fair value of financial derivative contracts in place at each period end. Before taxes and excluding impairment expense and unrealized gains (losses) on financial derivatives there was a net loss of \$31.1 million and \$36.2 million for the three and six months ended June 30, 2020 and a net loss of \$6.3 million and net gain of \$12.7 million for the prior year comparative periods. Impairment expense is a result of market conditions at a given point in time, causing downward pressures on market capitalization, forward pricing and the valuation of reserves, which could change at some point in the future. The unrealized market to market values are a function of highly volatile commodity prices, resulting in significant variances in the values from quarter to quarter. The financial derivatives contracts are in place to provide greater adjusted funds flow stability and certainty. Over the past five years, NuVista has a cumulative realized gain on financial derivatives in the amount of \$73.3 million.

Liquidity and capital resources

Long-term debt (credit facility)

At June 30, 2020, the Company had a \$475 million (December 31, 2019 - \$550 million) extendible revolving term credit facility available from a syndicate of Canadian chartered banks. Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin. The credit facility is secured by a first floating charge debenture, general assignment of book debts and NuVista's properties and equipment. The credit facility has a tenor of two years and is subject to an annual review by the lenders, at which time the lenders can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a review of the maximum borrowing amount occurs semi-annually on November 30 and May 31. During the term period, no principal payments would be required until a year after the revolving period matures on the annual renewal date of May 31, in the event the credit facility is reduced or not renewed. As such, the credit facility is classified as long-term. The credit facility does not contain any financial covenants but NuVista is subject to various industry standard non-financial covenants. Compliance with these covenants is monitored on a regular basis and as at June 30, 2020, NuVista was in compliance with all covenants.

In May 2020, NuVista completed the annual review of its borrowing base with its lenders and the lenders approved a decrease to the revolving term credit facility of \$550 million to \$475 million. The next semi-annual review is scheduled for on or before November 30, 2020. There are no assurances the facility size will remain at the current level at the next renewal date.

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"). Proceeds net of costs amounted to \$215.1 million. 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.

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

(\$ thousands)	June 30, 2020	December 31, 2019
Basic common shares outstanding	225,716	225,592
Share price ⁽¹⁾	0.76	3.19
Total market capitalization	171,544	719,638
Cash and cash equivalents, accounts receivable and prepaid expenses	(42,919)	(62,772)
Other receivable	(22,579)	(10,301)
Accounts payable and accrued liabilities	75,877	110,144
Long-term debt (credit facility)	428,770	306,274
Senior unsecured notes	217,183	216,771
Other liabilities	557	1,859
Net debt ⁽²⁾	656,889	561,975
Annualized current quarter adjusted funds flow	60,460	280,320
Net debt to annualized current quarter adjusted funds flow	10.9	2.0

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

⁽²⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Reference should be made to the section entitled "Non-GAAP measurements".

Net debt

In light of historically low oil and condensate prices, NuVista is currently focused on maintaining sufficient liquidity to support both our on-going operations and a minimal capital program. For the remaining six months of 2020, NuVista plans to incur capital expenditures of approximately \$20 to \$25 million which is less than our anticipated adjusted funds flow at strip pricing over the same time period. As a result our net debt is expected to decrease from June 30, 2020 to the end of 2020. At June 30, 2020, NuVista had drawn \$428.8 million on its credit facility and had outstanding letters of credit of \$19.3 million which reduces the room available on the credit facility, leaving \$27.0 million of unused capacity based on the committed credit facility of \$475.0 million.

NuVista plans to monitor its 2020 business plan and continue to adjust its 2020 budgeted capital program of \$165 to \$175 million in the context of commodity prices and net debt levels.

Share Capital

As at June 30, 2020, there were 225.7 million common shares outstanding. In addition, there were 7.6 million stock options with an average exercise price of \$5.20 per option, 1.4 million RSAs, and 2.0 million PSAs outstanding.

Commitments

NuVista enters into contract obligations as part of conducting business. The following is a summary of NuVista's contractual obligations and commitments as at June 30, 2020:

(\$ thousands)	Total	2020	2021	2022	2023	2024	Thereafter
Transportation ⁽¹⁾	917,679	44,603	112,512	105,499	84,321	81,032	489,712
Processing ⁽¹⁾	1,043,875	29,049	73,206	82,610	89,092	89,921	679,997
Office lease ⁽²⁾	5,615	445	938	948	999	857	1,428
Total commitments⁽³⁾	1,967,169	74,097	186,656	189,057	174,412	171,810	1,171,137

⁽¹⁾ Certain of the transportation and processing commitments are secured by outstanding letters of credit of \$18.6 million at June 30, 2020 (December 31, 2019 - \$7.3 million).

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

⁽³⁾ Excludes commitments recognized within lease liabilities.

Off "balance sheet" arrangements

NuVista has certain commitments which are reflected in the contractual obligations and commitments table, which were entered into in the normal course of operations. Most transportation and processing commitments have been treated as operating leases whereby the payments are included in operating or transportation expenses.

Quarterly financial information

The following table highlights NuVista's performance for the eight quarterly reporting periods from September 30, 2018 to June 30, 2020:

(\$ thousands, except per share amounts)	2020			2019			2018	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Production (Boe/d)	50,922	52,080	57,010	51,819	50,391	43,839	49,060	40,080
Petroleum and natural gas revenues	67,399	127,152	163,278	138,771	143,948	139,488	143,006	150,956
Net earnings (loss)	(80,422)	(788,747)	(29,557)	(7,650)	9,301	(35,927)	104,086	3,467
Per basic share	(0.36)	(3.50)	(0.13)	(0.03)	0.04	(0.16)	0.46	0.02
Cash flow from operating activities	8,555	57,345	80,321	48,998	81,235	53,302	70,447	51,740
Per basic share	0.04	0.25	0.36	0.22	0.36	0.24	0.31	0.28
Adjusted funds flow ⁽¹⁾	15,115	50,868	70,080	59,799	64,318	71,654	63,635	72,610
Per basic share	0.07	0.23	0.31	0.27	0.29	0.32	0.28	0.39

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. Reference should be made to the section entitled "Non-GAAP measurements".

NuVista's Montney production volumes have been increasing with substantially all of the Company's capital expenditures allocated to the Wapiti Montney area, related successful drilling and production performance, asset acquisitions and the construction of a compressor station in that core area. Production from Wapiti Montney in 2019 is 96% of total production. Over the prior eight quarters, quarterly revenue has been in a range of \$67.4 million to \$163.3 million with revenue primarily influenced by production volumes and commodity prices. Net earnings (losses) have been in a range of a net loss of \$788.7 million to net earnings of \$104.1 million with

earnings primarily influenced by realized and unrealized gains and losses on financial derivatives, commodity prices, impairments, production volumes, and deferred income taxes.

Non-GAAP measurements

The Company uses terms that are commonly used in the oil and natural gas industry, but do not have any standardized meaning as prescribed by IFRS and therefore may not be comparable with the calculations of similar measures for other entities. Management believes that the presentation of these non-GAAP measures provide useful information to investors and shareholders as the measures provide increased transparency and the ability to better analyze performance against prior periods on a comparable basis.

The following list identifies the non-GAAP measures included in NuVista's MD&A, a description of how the measure has been calculated, a discussion of why management has deemed the measure to be useful and a reconciliation to the most comparable GAAP measure.

Adjusted funds flow

NuVista has calculated adjusted funds flow based on cash flow provided by operating activities, excluding changes in non-cash working capital, asset retirement expenditures and environmental remediation recovery, as management believes the timing of collection, payment, and occurrence is variable and by excluding them from the calculation, management is able to provide a more meaningful 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.

Adjusted funds flow as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, per the statement of cash flows, net earnings (loss) or other measures of financial performance calculated in accordance with GAAP. Adjusted funds flow per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net earnings (loss) per share. Refer to Note 14 "Capital Management" in the financial statements.

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.

The following table provides a reconciliation between the non-GAAP measure of adjusted funds flow to the more directly comparable GAAP measure of cash flow from operating activities:

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Cash provided by operating activities	8,555	81,235	65,900	134,537
Add back:				
Asset retirement expenditures	240	437	9,974	13,115
Change in non-cash working capital ⁽¹⁾	6,320	(17,354)	(9,891)	(11,680)
Adjusted funds flow	15,115	64,318	65,983	135,972
Adjusted funds flow \$/Boe	3.27	14.01	7.04	15.93
Adjusted funds flow per share, basic	0.07	0.29	0.29	0.60
Adjusted funds flow per share, diluted	0.07	0.29	0.29	0.60

⁽¹⁾ Refer to Note 19 "Supplemental cash flow information" in the financial statements.

Operating netback and Corporate netback ("netbacks")

NuVista reports netbacks on a total dollar and per Boe basis. Operating netback is calculated as petroleum and natural gas revenues including realized financial derivative gains/losses, less royalties, transportation and operating expenses. Corporate netback is operating netback less general and administrative, deferred share units, interest and lease finance expense. Netbacks per Boe are calculated by dividing the netbacks by total production volumes sold in the period.

NuVista adopted IFRS 16 - *Leases* using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as an increase to right-of-use assets with a corresponding increase to lease liabilities, with no impact to opening retained earnings. Prior year comparative information has not been restated.

Management feels both operating and corporate netbacks are key industry benchmarks and measures of operating performance for NuVista that assists management and investors in assessing NuVista's profitability, and are commonly used by other petroleum and natural gas producers. The measurement on a Boe basis assists management and investors with evaluating NuVista's operating performance on a comparable basis.

The following table provides a reconciliation between the non-GAAP measures of operating and corporate netback to the most directly comparable GAAP measure of net earnings (loss) for the period:

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Net earnings (loss) and comprehensive income (loss)	(80,422)	9,301	(869,169)	(26,626)
Add back:				
Depletion, depreciation, amortization and impairment	45,026	68,644	1,005,105	120,421
Exploration and evaluation	—	—	—	977
Loss (gain) on property dispositions	(578)	—	2,759	(1,934)
Share-based compensation	1,702	1,122	1,588	2,669
Unrealized loss (gain) on financial derivatives	49,362	(1,484)	(7,138)	65,420
Deferred income tax recovery	—	(14,084)	(69,174)	(26,135)
General and administrative expenses	3,173	4,020	7,318	8,237
Financing costs	10,743	7,829	20,981	15,293
Operating netback	29,006	75,348	92,270	158,322
Deduct:				
General and administrative expenses	(3,173)	(4,020)	(7,318)	(8,237)
Deferred share units recovery (expense)	(274)	368	1,302	241
Interest and lease finance expense	(10,444)	(7,378)	(20,271)	(14,354)
Corporate netback	15,115	64,318	65,983	135,972

Capital expenditures

Capital expenditures are equal to cash flow used in investing activities, excluding changes in non-cash working capital and other receivable. Any expenditures on the other receivable are being refunded to NuVista and are therefore included under current assets. NuVista considers capital expenditures to be a useful measure of cash flow used for capital reinvestment.

The following table provides a reconciliation between the non-GAAP measure of capital expenditures to the most directly comparable GAAP measure of cash flow used in investing activities for the period:

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Cash flow used in investing activities	(41,126)	(86,676)	(186,975)	(209,318)
Changes in non-cash working capital	22,961	13,005	25,200	342
Other receivable	(2,600)	(15,521)	12,278	23,221
Property dispositions	—	—	—	(14)
Capital expenditures	(20,765)	(89,192)	(149,497)	(185,769)

Net debt

NuVista has calculated net debt based on cash and cash equivalents, accounts receivable and prepaid expenses, accounts payable and accrued liabilities, other receivable, long-term debt (credit facility) and senior unsecured notes.

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. Management has excluded the current and long term financial instrument commodity contracts as they are subject to a high degree of volatility prior to ultimate settlement. Similarly, management has excluded the current and long term portion of asset retirement obligations as these are estimates based on management's assumptions and subject to volatility based on changes in cost and timing estimates, the risk-free rate and inflation rate.

The following table shows the composition of the non-GAAP measure of net debt with GAAP components from the balance sheet:

(\$ thousands)	June 30, 2020	December 31, 2019
Cash and cash equivalents, accounts receivable and prepaid expenses	(42,919)	(62,772)
Other receivable	(22,579)	(10,301)
Accounts payable and accrued liabilities	75,877	110,144
Long-term debt (credit facility)	428,770	306,274
Senior unsecured notes	217,183	216,771
Other liabilities	557	1,859
Net debt	656,889	561,975

Critical accounting estimates

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. During the three months ended March 31, 2020, the World Health Organization declared COVID-19 to be a pandemic. Responses to the spread of COVID-19 have resulted in a sudden decline in economic activity and resulted in a significant increase in economic uncertainty. In addition, oil prices have declined dramatically due to the global oil price war and decline in demand due to COVID-19. These events have resulted in a volatile and challenging economic environment which has adversely affected the Company's operational results and financial position. Estimates and judgments made by management in the preparation of the interim financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

Further information on our critical accounting policies and estimates can be found in the notes to the audited annual financial statements and MD&A for the year ended December 31, 2019.

Disclosure controls and internal controls over financial reporting

NuVista's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in National Instrument 52-109. NuVista's CEO and CFO have designed disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed by NuVista in its filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and is accumulated and communicated to NuVista's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. The CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the interim and annual filings that the Company's disclosure controls and procedures are effective.

The CEO and CFO have also designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of NuVista's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of NuVista;
- (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with GAAP, and that receipts and expenditures of NuVista are being made only in accordance with authorizations of management and directors of NuVista; and
- (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of NuVista's assets that could have a material effect on the annual financial statements.

NuVista has designed its internal controls over financial reporting based on the Committee of Sponsoring Organizations of the Treadway Commission (2013). During the three and six months ended June 30, 2020, there have been no changes to NuVista's internal controls over financial reporting that have materially or are reasonably likely to materially affect the internal controls over financial reporting; the CEO and CFO have concluded that the internal controls over financial reporting are effective.

Because of their inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, error or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the control system are met.

Assessment of business risks

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. In addition, global commodity prices have declined significantly due to a disputes between major oil producing countries combined with the impact of the COVID-19 pandemic. Governments worldwide, including those in Canada have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may have significant adverse impacts on NuVista including, but not exclusively:

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

Although the economy has recently begun to reopen and government authorities are easing restrictions, the situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on NuVista is not known at this time.

Estimates and judgments made by management in the preparation of the financial statements are increasing difficult and subject to a higher degree of measurement uncertainty during this volatile period.

The following are the primary risks associated with the business of NuVista. Most of these risks are similar to those affecting others in the conventional oil and natural gas sector. NuVista's financial position and results of operations are directly impacted by these factors:

- Operational risk associated with the production of oil and natural gas;
- Operational risk associated with third party facility outages and downtime;
- Reserves risk with respect to the quantity and quality of recoverable reserves;
- Commodity risk as crude oil, condensate and natural gas prices and differentials fluctuate due to market forces;
- Financial risk such as volatility of the Cdn/US dollar exchange rate, interest rates and debt service obligations;
- Risk associated with the re-negotiation of NuVista's credit facility and the continued participation of NuVista's lenders;
- Market risk relating to the availability of transportation systems to move the product to market;
- Our ability to satisfy our obligations under our firm commitment transportation and processing arrangements;
- Environmental and safety risk associated with well operations and production facilities;
- Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices, fracturing regulations and environmental protection relating to the oil and natural gas industry;
- Labour risk related to availability, productivity and retention of qualified personnel;
- Widening concerns over climate change, fossil fuel consumption, green house gas emissions, and water and land use could lead governments to enact additional laws, regulations and costs or taxes that may be applicable to NuVista; and
- Changes to environmental regulations related to climate change could impact the demand for, development of or quality of NuVista's petroleum products, or could require increased capital expenditures, operating expenses, asset retirement obligations and costs, which could result in increased costs which would reduce the profitability and competitiveness of NuVista if commodity prices do not rise

commensurate with the increased costs. In addition, such regulatory changes could necessitate NuVista to develop or adapt new technologies, possibly requiring significant investments of capital.

NuVista seeks to mitigate these risks by:

- Acquiring properties with established production trends to reduce technical uncertainty as well as undeveloped land with development potential;
- Maintaining a low cost structure to maximize product netbacks and reduce impact of commodity price cycles;
- Diversifying properties to mitigate individual property and well risk;
- Maintaining product mix to balance exposure to commodity prices;
- Conducting rigorous reviews of all property acquisitions;
- Monitoring pricing trends and developing a mix of contractual arrangements for the marketing of products with creditworthy counterparties;
- Maintaining a price risk management program to manage commodity prices and foreign exchange currency rates risk and transacting with creditworthy counterparties;
- Ensuring strong third-party operators for non-operated properties;
- Adhering to NuVista's safety program and keeping abreast of current operating best practices;
- Keeping informed of proposed changes in regulations and laws to properly respond to and plan for the effects that these changes may have on our operations;
- Carrying industry standard insurance to cover losses;
- Establishing and maintaining adequate cash resources to fund future abandonment and site restoration costs;
- Closely monitoring commodity prices and capital programs to manage financial leverage; and
- Monitoring the debt and equity markets to understand how changes in the capital market may impact NuVista's business plan.

Information regarding risk factors associated with the business of NuVista and how NuVista seeks to mitigate these risks are contained in our Annual Information Form under the Risk Factors Section for the year ended December 31, 2019.

Environmental, Social, Governance ("ESG") - progress continues

We are proud to have demonstrated our commitment to transparency and ethical practices in our inaugural Environmental, Social, and Governance ("ESG") report earlier in 2019. This report, available for viewing on NuVista's website, provides a comprehensive look at NuVista's ESG practices while highlighting the proactivity and excellent execution our teams have always demonstrated in advancement of our ESG performance. Key highlights of the report include our high safety and environmental performance, our long term progress in reducing GHG intensity, and our strong governance and community focus. Approximately 70% of our current production is comprised of natural gas which has the lowest carbon footprint of any hydrocarbon, leading to our GHG performance being well below the North American benchmark. We continue to execute projects to enhance our ESG progress, and we look forward to providing updated ESG reporting in the future.