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 nine months ended September 30, 2019 and audited financial statements for the year ended December 31, 2018. The following MD&A of financial condition and results of operations was prepared at and is dated November 8, 2019. Our December 31, 2018 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 ("Mcfe") 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; the effect of financial, commodity, and natural gas risk management strategy and market diversification; 2019 and fourth quarter 2019 production and capital spending guidance; expectations that in in 2021, we will arrive at the point where adjusted funds flow will exceed the required capital to maintain production levels at the future minimum volume commitment of 68,000 Boe/d; our flexibility beyond 2021 to moderate growth in order to maximize our free funds flow generating capacity, or continue growing toward the total firm capacity of 90,000 Boe/d, or add an additional growth wedge up to 110,000 Boe/d; our expectations that our inventory supports our growth plans; our expectations that we have significant flexibility in our plans beyond 2021; 2020 guidance with respect to production and capital spending; our plans to limit 2020 capital spending to no more than approximately 100 - 110% of adjusted funds flow; our 2020 drilling and infrastructure plans; NuVista's future exposure to AECO; the impact of royalty changes on NuVista's results of operations; capital spending, production and adjusted funds flow guidance; plans to use free funds flow to reduce debt, buy back shares, or for growth; 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; targeted net debt to annualized current quarter adjusted funds flow; 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 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 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, 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.

Operations activity

	Three months ended September 30		Nine months ended September 30	
Number of wells	**2019**	2018	**2019**	2018
Wells drilled - gross (net) (1)	**1 (1.0)**	7 (6.9)	**27 (27.0)**	23 (22.5)
Wells completed - gross (net) (2)	**8 (8.0)**	8 (7.7)	**33 (33.0)**	17 (16.8)
Wells brought on production - gross (net) (3)	**11 (11.0)**	8 (7.7)	**32 (31.8)**	18 (17.7)

(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 September 30, 2019, NuVista drilled 1 (1.0 net) oil well compared to 7 (6.9 net) Montney condensate rich natural gas wells in the comparable period of 2018. For the nine months ended September 30 2019, NuVista drilled 25 (25.0 net) Montney condensate rich natural gas wells and 2 (2.0 net) oil wells, compared to 22 (21.5 net) Montney condensate rich natural gas wells and 1 (1.0) disposal well in the comparable period of 2018.

All wells in 2019 and 2018 were drilled with a 100% success rate.

Production

	Three months ended September 30			Nine months ended September 30		
	2019	2018	% Change	**2019**	2018	% Change
Natural gas (Mcf/d)	**184,681**	143,254	29	**174,924**	134,796	30
Condensate & oil (Bbls/d)	**15,728**	12,819	23	**14,488**	11,969	21
Natural gas liquids ("NGLs") (Bbls/d)	**5,310**	3,385	57	**5,070**	2,984	70
Total (Boe/d)	**51,819**	40,080	29	**48,712**	37,419	30
Condensate, oil & NGLs weighting (1) (2)	**41%**	40%		**40%**	40%	
Condensate & oil weighting (2)	**30%**	32%		**30%**	32%	

(1) NGLs include butane, propane and ethane.
(2) Product weighting is based on total production.

Production for the three and nine months ended September 30, 2019 increased 29% and 30% respectively over the comparative periods of 2018 as a result of production increases from continued successful drilling of Montney wells, the incremental production associated with the Pipestone Acquisition, and production associated with the start up of the Pipestone compressor station in late September. Third quarter production of 51,819 Boe/d increased 3% from second quarter 2019 production of 50,391 Boe/d, primarily as a result of new wells brought on production in the quarter which offsets declines, and steady run time during the third quarter. Condensate & oil volume weighting of 30% in the second quarter was slightly lower than the 32% in the prior year comparative periods due to natural variations in the new well condensate rates.

Pricing

	Three months ended September 30			Nine months ended September 30		
	2019	2018	% change	**2019**	2018	% change
Realized selling prices (1) & (2)						
Natural gas ($/Mcf)	**2.24**	3.41	(34)	**2.80**	3.43	(18)
Condensate & oil ($/Bbl)	**63.45**	80.74	(21)	**64.68**	78.95	(18)
NGLs ($/Bbl)	**5.82**	34.61	(83)	**10.89**	35.38	(69)
Barrel of oil equivalent ($/Boe)	**27.86**	40.94	(32)	**30.43**	40.41	(25)
Benchmark pricing						
Natural gas - AECO 5A daily index (Cdn$/Mcf)	**0.91**	1.19	(24)	**1.52**	1.48	3
Natural gas - AECO 7A monthly index (Cdn$/Mcf)	**1.04**	1.35	(23)	**1.39**	1.41	(1)
Natural gas - NYMEX (monthly) (US$/MMbtu)	**2.23**	2.90	(23)	**2.67**	2.90	(8)
Natural gas - Chicago Citygate (monthly) (US$/MMbtu)	**2.03**	2.75	(26)	**2.60**	2.87	(9)
Natural gas - Dawn (daily) (US$/MMbtu)	**2.12**	2.91	(27)	**2.46**	2.91	(15)
Natural gas - Malin (monthly) (US$/MMbtu)	**1.97**	2.39	(18)	**2.68**	2.29	17
Oil - WTI (US$/Bbl)	**56.45**	69.50	(19)	**57.06**	66.75	(15)
Oil - Edmonton Par - (Cdn$/Bbl)	**68.25**	82.00	(17)	**69.42**	78.25	(11)
Condensate - Condensate @ Edmonton (Cdn$/Bbl)	**68.58**	87.35	(21)	**70.14**	85.31	(18)
Exchange rate - (Cdn$/US$)	**1.32**	1.31	1	**1.33**	1.29	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) The average condensate and NGLs selling price is net of pipeline tariffs and fractionation fees.

The WTI benchmark averaged US$56.45/Bbl in the third quarter of 2019, significantly below the third quarter of last year and slightly below the second quarter of this year which averaged US$59.81/Bbl. In December of last year, OPEC and other nations agreed to a 1.2 million Bbl/d production cut to stabilize the global oil market. In June 2019, these cuts were extended into 2020. US sanctions against Iran and Venezuela further reduced global oil supply, however offsetting this is continued growth in US production primarily in the Permian basin. Canadian heavy oil differentials widened in a sudden and unprecedented fashion in the fourth quarter of 2018 and this temporarily but significantly pressured the light oil market and also the condensate market. In December of last year, the Alberta Government announced a mandated temporary oil supply curtailment which had the immediate effect of improving heavy oil, light oil and condensate differentials starting in January 2019, which has continued throughout this year. The oil supply curtailments will be extended into next year but have been reduced, allowing for additional oil production which has increased demand for condensate. Condensate prices continued to outperform other liquid prices with the Edmonton marker averaging C$68.58/Bbl for the quarter. The oil supply curtailment does not apply to condensate or to NuVista.

US gas production continues to grow this year but so far at a slower pace than last year. The production growth has been offset by growth in US liquid natural gas ("LNG") exports, exports to Mexico, and continued growth in the power and industrial sectors. There are four major LNG projects in the US that are receiving gas already and there will be a number of additional projects coming online next year that will help to provide support for North American gas prices. NYMEX gas prices have been drifting lower since the spring and were down compared to the second quarter of 2019 averaging US$2.23/MMbtu. Eastern North American and MidWest prices were down relative to NYMEX gas prices in the third quarter which is typical for this time of year until winter sets in. AECO gas prices averaged $1.04/Mcf in the third quarter of 2019 representing a decrease of 11% from $1.17/Mcf in the second quarter of 2019 and a 23% decrease from the third quarter of 2018.

Revenue

Petroleum and natural gas revenues

	Three months ended September 30				Nine months ended September 30			
	2019		2018		**2019**		2018	
($ thousands, except % amounts)	**$**	**% of total**	$	% of total	**$**	**% of total**	$	% of total
Natural gas [1]	**38,150**	**29**	44,952	30	**133,715**	**33**	126,034	31
Condensate & oil	**91,808**	**69**	95,226	63	**255,825**	**63**	257,980	62
NGLs [2]	**2,843**	**2**	10,778	7	**15,077**	**4**	28,829	7
Total petroleum and natural gas revenues	**132,801**		150,956		**404,617**		412,843	

(1) Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the three and nine months ended September 30, 2019, our physical delivery sales contracts resulted in gains of $3.5 million and $5.3 million (2018 – $5.8 million gain and $17.2 million gain).
(2) Includes butane, propane, ethane and an immaterial amount of sulphur revenue.

For the three months ended September 30, 2019, petroleum and natural gas revenues decreased 12% from the comparable period of 2018, due primarily to a 32% decrease in average per Boe realized price, offset by a 29% increase in production for the quarter.

For the nine months ended September 30, 2019, petroleum and natural gas revenue decreased 2% over the comparable period of 2018, due primarily to a 30% increase in production offset by a 25% decrease in realized selling prices.

Condensate & oil volumes averaged 30% of total production in the third quarter of 2019, contributing to 69% of total petroleum and natural gas revenues.

A breakdown of natural gas revenue is as follows:

	Three months ended September 30				Nine months ended September 30			
	2019		2018		**2019**		2018	
($ thousands, except per unit amounts)	**$**	**$/Mcf**	$	$/Mcf	**$**	**$/Mcf**	$	$/Mcf
Natural gas revenue - AECO reference price (1)	**16,857**	**1.04**	16,511	1.35	**63,192**	**1.36**	50,873	1.41
Heat/value adjustment (2)	**1,748**	**0.11**	1,814	0.15	**5,841**	**0.13**	4,998	0.14
Transportation revenue (3)	**7,065**	**0.44**	7,205	0.59	**21,587**	**0.46**	19,273	0.53
Natural gas market diversification revenue	**9,009**	**0.45**	13,631	0.88	**37,828**	**0.74**	33,693	0.88
AECO physical delivery sales contract gains (4)	**3,471**	**0.20**	5,791	0.44	**5,267**	**0.11**	17,197	0.47
Total natural gas revenue	**38,150**	**2.24**	44,952	3.41	**133,715**	**2.80**	126,034	3.43

(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 September 30, 2019, natural gas revenue decreased 15% from the comparable period of 2018, due to a 29% increase in production offset by a 34% decrease in realized selling prices. For the nine months ended September 30, 2019, natural gas revenue increased 6% over the comparable period of 2018, due primarily to a 30% increase in production offset by a 18% decrease in realized selling prices.

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	**2018**
AECO physical deliveries	**42%**	21 %	**40%**	33 %
Dawn physical deliveries	**24%**	32 %	**25%**	30 %
Malin physical deliveries	**21%**	28 %	**21%**	18 %
Chicago physical deliveries	**13%**	19 %	**13%**	19 %

NuVista receives a premium to the AECO spot gas price due to the higher heat content of its natural gas production, as well as 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 to limit its exposure to spot AECO pricing. For the three months ended September 30, 2019, the Company delivered 42% of its gas to AECO of which 33% was under AECO physical fixed price delivery sales contracts. NuVista delivered approximately 24% of its natural gas production to Dawn, 21% to Malin, and 13% to Chicago.

NuVista's exposure to AECO floating prices was limited to approximately 9% of volumes in the third quarter of 2019 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 on physical sales contracts, the average selling price for natural gas for the three and nine months ended September 30, 2019 was $2.04/Mcf and $2.69/Mcf respectively, compared to $2.97/Mcf and $2.96/Mcf for the comparative periods of 2018, and $2.24/Mcf in the second quarter of 2019.

Condensate & oil revenue

For the three months ended September 30, 2019, condensate & oil revenue decreased 4% over the comparable period of 2018 due to a 23% increase in production offset by a 21% decrease in the average realized selling price. For the nine months ended September 30, 2019, condensate & oil revenue decreased 1% over the comparable period of 2018, due primarily to a 21% increase in production offset by a 18% decrease in the average realized selling price.

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 pipeline tariffs to Edmonton and quality differentials. Condensate & oil realized selling prices averaged $63.45/Bbl and $64.68/Bbl in the three and nine months ended September 30, 2019, a decrease of 21% and 18% from $80.74/Bbl and $78.95/Bbl for the comparable periods of 2018.

NGL revenue

For the three months ended September 30, 2019, NGL revenue decreased 74% over the comparable period of 2018, due to a 57% increase in production offset by a 83% decrease in the average realized selling price. For the nine months ended September 30, 2019, NGL revenue decreased 48% over the comparable period of 2018, due primarily to a 70% increase in production offset by a 69% decrease in the average realized selling price.

The NGL contract year typically begins April 1st and ends March 31st of the following year. Western Canadian inventories of propane and butane grew significantly last fall, leading to local price weakness for both of these products starting late last year, but did not factor into contractual pricing until April 2019.

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.

Three months ended September 30						
($ thousands)	**2019**			2018		
	Realized gain (loss)	**Unrealized gain (loss)**	**Total gain (loss)**	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)
Natural gas	**3,661**	**(30,895)**	**(27,234)**	1,728	(27,622)	(25,894)
Condensate & oil	**5,399**	**15,596**	**20,995**	(15,158)	1,952	(13,206)
Foreign exchange	**—**	**—**	**—**	(21)	186	165
Gain (loss) on financial derivatives	**9,060**	**(15,299)**	**(6,239)**	(13,451)	(25,484)	(38,935)

During the third quarter of 2019, the commodity price risk management program resulted in a total loss of $6.2 million, compared to a total loss of $38.9 million for the comparable period of 2018 and a total gain of $3.1 million in the second quarter of 2019. 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 third quarter is primarily as a result of an unrealized loss on natural gas contracts reflective of the narrowing AECO/NYMEX basis forward strip pricing at the end of the quarter compared to the beginning of the quarter, partially offset by an increase in the mark to market value of oil contracts in place at the end 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 fourth quarter of 2018 and the first quarter of 2019.

Nine months ended September 30						
($ thousands)	**2019**			2018		
	Realized gain (loss)	**Unrealized gain (loss)**	**Total gain (loss)**	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)
Natural gas	**3,213**	**(68,197)**	**(64,984)**	5,222	(3,998)	1,224
Condensate & oil	**10,212**	**(12,522)**	**(2,310)**	(32,928)	(32,644)	(65,572)
Foreign exchange	**—**	**—**	**—**	54	77	131
Gain (loss) on financial derivatives	**13,425**	**(80,719)**	**(67,294)**	(27,652)	(36,565)	(64,217)

For the nine months ended September 30, 2019, the commodity price risk management program resulted in a loss of $67.3 million compared to a loss of $64.2 million for the comparable period of 2018.

Nuvista has significant hedges currently in place, with approximately 70% of remaining 2019 condensate & oil production hedged at an average floor C$ WTI price of 78.31/Bbl, and approximately 66% of remaining 2019 natural gas production hedged at an average floor price of $2.34/Mcf.

Price risk management gains on our physical delivery sale contracts totaled $3.5 million and $5.3 million for the three and nine months ended September 30, 2019 compared to gains of $5.8 million and $17.2 million for the comparable periods of 2018.

(a) Financial instruments

The following is a summary of financial derivatives contracts in place as at September 30, 2019:

	WTI fixed price swap	
Term [1]	**Bbls/d**	**Cdn$/Bbl**
2019 remainder	8,597	76.38
2020	6,099	76.28

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

Term (1)	C$ WTI 3 Way Collar Bbls/d	Cdn$/Bbl	Cdn$/Bbl	Cdn$/Bbl
2019 remainder	5,165	67.63	81.55	88.94
2020	3,449	66.59	80.51	87.71

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

	AECO-NYMEX basis swap		Chicago-NYMEX basis swap		Malin-NYMEX basis swap		AECO-Malin basis swap		Dawn-NYMEX basis swap	
Term (1)	MMbtu/d	US$/ MMbtu	MMbtu/d	US$/ MMbtu	MMbtu/d	US$/ MMbtu	MMbtu/d	US$/ MMbtu	MMbtu/d	US$/ MMbtu
2019 remainder	17,500	(0.94)	13,315	(0.25)	13,370	(0.42)	10,000	0.68	6,630	(0.26)
2020	47,500	(0.96)	15,000	(0.25)	11,667	(0.51)	8,333	0.68	10,000	(0.26)
2021	95,000	(0.98)	15,000	(0.24)	20,000	(0.66)	—	—	10,000	(0.26)
2022	95,000	(0.97)	12,493	(0.24)	16,658	(0.66)	—	—	8,329	(0.26)
2023	100,000	(1.01)	—	—	—	—	—	—	—	—
2024	100,000	(1.00)	—	—	—	—	—	—	—	—
2025	35,000	(1.00)	—	—	—	—	—	—	—	—

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

	AECO fixed price swap		NYMEX fixed price swap		Dawn fixed price swap	
Term (1)	GJ/d	Cdn$/GJ	MMbtu/d	US$/MMbtu	MMbtu/d	US$/MMbtu
2019 remainder	1,685	1.30	51,630	2.72	3,370	2.50
2020	—	—	48,757	2.67	—	—

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

Subsequent to September 30, 2019 the following is a summary of financial derivatives that have been entered into:

Term (1)	C$ WTI 3 Way Collar Bbls/d	Cdn$/Bbl	Cdn$/Bbl	Cdn$/Bbl
2020	600	60.00	68.13	74.90

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

	Dawn fixed price swap	
Term (1)	MMbtu/d	US$/MMbtu
2019 remainder	3,315	2.63
2020	1,243	2.63

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

(b) Physical delivery sales contracts

The following is a summary of the physical delivery sales contracts in place as at September 30, 2019:

	Dawn fixed price swap		Dawn-NYMEX Basis	
Term (1)	MMbtu/d	US$/MMbtu	MMbtu/d	US$/MMbtu
2019 remainder	3,370	2.50	6,630	(0.26)
2020	—	—	10,000	(0.26)
2021	—	—	10,000	(0.26)
2022	—	—	8,329	(0.26)

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

	AECO fixed price swap	
Term (1)	GJ/d	Cdn$/GJ
2019 remainder	66,413	1.77
2020Q1	10,000	1.60
2020Q2	75,000	1.40
2020Q3	75,000	1.40
2020Q4	25,272	1.40

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

Subsequent to September 30, 2019 the following is a summary of the physical delivery sales contracts that have been entered into:

	AECO fixed price swap		Dawn fixed price swap	
Term (1)	GJ/d	Cdn$/GJ	MMbtu/d	US$/MMbtu
2019 remainder	6,739	2.15	3,315	2.62
2020	—	—	1,243	2.62

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

Royalties

	Three months ended September 30		Nine months ended September 30	
($ thousands, except % and per Boe amounts)	**2019**	2018	**2019**	2018
Gross royalties	**11,106**	8,278	**29,432**	19,587
Gas cost allowance ("GCA")	**(3,618)**	(2,996)	**(11,330)**	(8,162)
Net royalties	**7,488**	5,282	**18,102**	11,425
Gross royalty % excluding physical delivery sales contracts(1)	**8.6**	5.7	**7.4**	5.0
Gross royalty % including physical delivery sales contracts	**8.4**	5.5	**7.3**	4.7
Net royalties $/Boe	**1.57**	1.43	**1.36**	1.12

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

For the three and nine months ended September 30, 2019, gross royalties increased 34% and 50% respectively as compared to the comparable periods of 2018 as a result of the production increases over the prior year. 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 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 nine months ended September 30, 2019, the 21% and 39% increase in GCA credits received compared to the comparative periods of 2018 is primarily due to the increased crown royalty payments made to the Crown as a result of increased production.

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

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per unit amounts)	**2019**	2018	**2019**	2018
Natural gas transportation expense	**12,296**	10,341	**36,452**	29,503
Condensate, oil & NGL transportation expense	**2,166**	1,065	**5,018**	2,358
Total transportation expense	**14,462**	11,406	**41,470**	31,861
Natural gas transportation $/Mcf (1)	**0.72**	0.78	**0.76**	0.80
Condensate, oil & NGL transportation $/Bbl	**1.12**	0.90	**0.94**	0.72
Total transportation $/Boe	**3.03**	3.09	**3.12**	3.12

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

For the three and nine months ended September 30, 2019, total transportation expenses on a total dollar basis increased from the comparative periods of 2018 due primarily to higher volumes and additional firm commitments for gas transportation and increased trucking of condensate volumes. NuVista incurs transportation expenses on these gas volumes, however, the tolls are more than offset by the higher realized gas prices received at markets outside Alberta. Third quarter total transportation expense remained consistent with second quarter total transportation expense of $14.5 million ($3.17/Boe).

Condensate transportation expense on a $/Bbl basis is dependent on the proportion of condensate production volumes flowing through third party liquids pipelines which incurs lower transportation rates than volumes being trucked. The higher condensate transportation rates for the three and nine months ended September 30, 2019 as compared to the prior year comparative periods was primarily as a result of increased condensate production and a slightly lower proportion of condensate volumes flowing through third party liquids pipelines versus more costly trucking of volumes, resulting in a slightly higher condensate transportation cost.

Operating expenses

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per unit amounts)	**2019**	2018	**2019**	2018
Operating expenses	**47,510**	36,199	**127,747**	102,717
Per Boe	**9.97**	9.82	**9.61**	10.06

For the three and nine months ended September 30, 2019, operating expenses increased 31% and 24% respectively as a result of the increased production compared to the prior year comparative periods of 2018, while the per Boe costs remained consistent with the prior year quarter comparative period, and decreased slightly on the prior year to date comparative period due to increased production, operational efficiencies, high utilization of the Elmworth and Bilbo compressor stations and the integration of the acquired Pipestone assets. Compared to second quarter operating expenses of $43.5 million ($9.49/Boe), third quarter operating expenses increased primarily due to the increased cost associated with the start up of the new Pipestone compressor in September, 2019.

In accordance with the adoption of IFRS 16 - *Leases* on January 1, 2019 as disclosed in Note 3 to the financial statements, base rent for the Company's field office is recognized as a lease prospective January 1, 2019. This has resulted in base rent costs in the amount of $95.0 thousand in the nine months ending September 30, 2019 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 is excluded from operating expense and classified as a lease under IFRS 16. For the 3 months ending September 30, 2019, total payments under these two new leases of $0.3 million were excluded from operating expenses and accounted for under the new lease standard.

General and administrative expenses ("G&A")

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per Boe amounts)	**2019**	2018	**2019**	2018
Gross G&A expenses	**6,029**	5,703	**18,227**	17,590
Overhead recoveries	**(480)**	(188)	**(1,422)**	(437)
Capitalized G&A	**(1,414)**	(1,159)	**(4,433)**	(3,693)
Net G&A expenses	**4,135**	4,356	**12,372**	13,460
Gross G&A per Boe	**1.26**	1.55	**1.37**	1.72
Net G&A per Boe	**0.87**	1.18	**0.93**	1.32

For the three and nine months ended September 30, 2019, gross G&A expenses have increased slightly from the prior year comparative periods consistent with increasing company size and activity. As a result of continued production increases and efficiencies gained from an operational focus on Wapiti Montney and continued focus on cost control, NuVista has continued to drive G&A costs per Boe downwards.

The Company's policy of allocating and capitalizing G&A expenses associated with new capital projects remained unchanged in 2018 and 2019. Overhead recoveries have increased since the Pipestone Acquisition due to NuVista's ownership interest and operatorship of the Wembley gas plant. 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 as disclosed in Note 3 to the financial statements, 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 in the amount of $553 thousand in the nine months ending September 30, 2019 being excluded from gross G&A expenses, as the costs are now accounted for under the new lease standard.

Share-based compensation expense

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2019**	2018	**2019**	2018
Stock options	**916**	636	**2,865**	2,595
Director deferred share units	**(1)**	(229)	**(243)**	359
Restricted share awards	**373**	304	**1,087**	1,255
Performance share awards	**172**	83	**420**	128
Total	**1,460**	794	**4,129**	4,337

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 increase in share-based compensation for the three months ended September 30, 2019, was primarily due to a smaller change in the valuation of the DSU liability and related DSU expense compared to the prior year comparative period. For the nine months ending September 30, 2019, the decrease in share-based compensation was due primarily to the decrease in the DSU liability and related DSU expense as a result of the decrease in share price from $4.08/share at December 31, 2018 to $2.48/share at September 30, 2019.

Transaction costs

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per Boe amounts)	**2019**	2018	**2019**	2018
Total transaction costs	**—**	2,624	**—**	2,624
Total transaction costs per Boe	**—**	0.71	**—**	0.26

Transaction costs are related to the Pipestone Acquisition that occurred in the third quarter of 2018. These costs include advisory, legal and other professional fees.

Financing costs

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per Boe amounts)	**2019**	2018	**2019**	2018
Interest on long-term debt (credit facility)	**3,659**	1,383	**10,407**	2,961
Interest on senior unsecured notes (1)	**3,904**	3,874	**11,366**	12,409
Call premium on redemption of 2021 Notes	**—**	—	**—**	6,562
Interest expense	**7,563**	5,257	**21,773**	21,932
Lease interest expense	**905**	—	**1,049**	—
Accretion expense	**519**	439	**1,458**	1,236
Total financing costs	**8,987**	5,696	**24,280**	23,168
Interest expense per Boe	**1.59**	1.43	**1.64**	2.15
Total financing costs per Boe	**1.89**	1.54	**1.83**	2.27

(1) 2018 year to date value includes $2.2 million of remaining accretion of carrying value to face value on redemption of 2021 Notes.

For the three and nine months ended September 30, 2019, interest expense on long-term debt increased from the comparable periods in 2018 due to higher average bank indebtedness and interest rates throughout the period. Average interest rates on long term debt for the three and nine months ended September 30, 2019 was 3.8% and 3.7% compared to average interest rate of 3.2% and 3.3% for the comparative periods of 2018. Interest rates have increased in 2019 commensurate with an increase in the Bank of Canada overnight lending rates. 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"). Part of the proceeds from the 2023 Notes were used to redeem all of the Company’s existing $70.0 million of 9.875% senior unsecured notes ("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 interest expense on a year to date basis, for a total incremental expense on payout of $8.8 million. See also the "liquidity and capital resources" section in this MD&A.

Interest on the senior unsecured notes issued for the three and nine months ended September 30, 2019, is for interest paid or accrued at the coupon rate to the end of the period on the 2021 and 2023 Notes. The effective interest rate on the 2021 Notes was 11.0%. The effective interest rate on the 2023 Notes is 7.0%. The carrying value of the 2023 Notes at September 30, 2019 is $216.6 million.

Lease interest expense for the three and nine months ended September 30, 2019 is from the adoption of IFRS 16 - *Leases* on January 1, 2019 as disclosed in Note 3 to the financial statements. The weighted average incremental borrowing rate on the office lease liabilities is 6%. Two new leases were identified in the third quarter 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 new lease liabilities are 8% and 11% respectively.

Operating netback and corporate netback

The tables below summarizes operating netback and corporate netback on a total dollar and per Boe basis for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30			
	2019		2018	
($ thousands, except per Boe amounts)	**$**	**$/Boe**	$	$/Boe
Petroleum and natural gas revenues [1]	**132,801**	**27.86**	150,956	40.94
Realized gain (loss) on financial derivatives	**9,060**	**1.90**	(13,451)	(3.65)
	141,861	**29.76**	137,505	37.29
Royalties	**(7,488)**	**(1.57)**	(5,282)	(1.43)
Transportation expense	**(14,462)**	**(3.03)**	(11,406)	(3.09)
Operating expense	**(47,510)**	**(9.97)**	(36,199)	(9.82)
Operating netback [2]	**72,401**	**15.19**	84,618	22.95
General and administrative expense	**(4,135)**	**(0.87)**	(4,356)	(1.18)
Deferred share units recovery (expense)	**1**	**—**	229	0.06
Interest and lease finance expense	**(8,468)**	**(1.78)**	(5,257)	(1.43)
Transaction costs	**—**	**—**	(2,624)	(0.71)
Corporate netback [2]	**59,799**	**12.54**	72,610	19.69

[1] Includes price risk management gains of $3.5 million (2018 - $5.8 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".

	Nine months ended September 30			
	2019		2018	
($ thousands, except per Boe amounts)	**$**	**$/Boe**	$	$/Boe
Petroleum and natural gas revenues [1]	**404,617**	**30.43**	412,843	40.41
Realized gain (loss) on financial derivatives	**13,425**	**1.01**	(27,652)	(2.71)
	418,042	**31.44**	385,191	37.70
Royalties	**(18,102)**	**(1.36)**	(11,425)	(1.12)
Transportation expense	**(41,470)**	**(3.12)**	(31,861)	(3.12)
Operating expense	**(127,747)**	**(9.61)**	(102,717)	(10.06)
Operating netback [2]	**230,723**	**17.35**	239,188	23.40
General and administrative	**(12,372)**	**(0.93)**	(13,460)	(1.32)
Deferred share units expense (recovery)	**243**	**0.02**	(359)	(0.04)
Interest expense	**(22,822)**	**(1.72)**	(21,932)	(2.15)
Transaction costs	**—**	**—**	(2,624)	(0.26)
Corporate netback [2]	**195,772**	**14.72**	200,813	19.63

[1] Includes price risk management gains of $5.3 million (2018 - $17.2 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 nine months ended September 30:

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per share amounts)	**2019**	2018	**2019**	2018
Cash flow from operating activities	**48,998**	51,740	**183,535**	180,610
Per share, basic	**0.22**	0.28	**0.81**	1.01
Per share, diluted	**0.22**	0.27	**0.81**	1.00
Adjusted funds flow [1]	**59,799**	72,610	**195,772**	200,813
Per share, basic	**0.27**	0.39	**0.87**	1.12
Per share, diluted	**0.27**	0.38	**0.87**	1.12

[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 nine months ended September 30, 2019, cash flow from operating activities of $49.0 million and $183.5 million respectively, decreased 5% and 2% from the prior year comparative periods, primarily due to increased petroleum and natural gas revenues as a result of increased production and realized gains on financial derivatives compared to realized losses in the prior year comparative periods, offset by lower commodity pricing and higher royalties, transportation and operating expenses as a result of increased production.

Adjusted funds flow for the three months ended September 30, 2019 and the comparable period of 2018 was $59.8 million ($0.27/share, basic) and $72.6 million ($0.39/share, basic) respectively, $10.8 million higher and $20.9 million higher than cash flow from operating activities in the comparable periods, due to changes in asset retirement expenditures and non-cash working capital.

Adjusted funds flow for the nine months ended September 30, 2019 and 2018 was 195.8 million ($0.87/share, basic) and $200.8 million ($1.12 /share, basic) respectively, $12.2 million higher and $20.2 million higher than cash flow from operating activities in the comparable periods, due to changes in asset retirement expenditures and non-cash working capital.

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

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per Boe amounts)	**2019**	2018	**2019**	2018
Depletion of condensate, oil and gas assets	**44,544**	34,510	**156,572**	99,530
Depreciation of fixed assets	**4,277**	3,762	**12,274**	10,094
Depreciation of right-of-use assets	**827**	—	**1,223**	—
DD&A expense	**49,648**	38,272	**170,069**	109,624
DD&A rate per Boe	**10.41**	10.38	**12.79**	10.73

DD&A expense for three and nine months ended September 30, 2019 was $49.6 million ($10.41/Boe) and $170.1 million ($12.79/Boe) compared to $38.3 million ($10.38/Boe) and $109.6 million ($10.73/Boe) for the comparable periods of 2018, and $68.6 million ($14.97/Boe) in the second quarter of 2019. DD&A expense for the three and nine months ended September 30, 2019 includes depletion charges in the amount of $1.3 million ($0.27/Boe) and $36.3 million ($2.73/Boe) respectively, related to an increase in estimate and 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 increase is included in depletion expense.

The Wapiti Montney CGU DD&A rate per Boe for the three and nine months ended September 30, 2019 decreased to $9.91/Boe and $9.93/Boe compared to $10.54/Boe and $10.33/Boe for the comparable periods of 2018, and decreased slightly from the DD&A rate of $9.93/Boe in the second quarter of 2019. These improved DD&A rates are a result of continued successful development and favorable acquisition metrics for the Acquired Assets.

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 September 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.

Exploration and evaluation ("E&E") expense

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per Boe amounts)	**2019**	2018	**2019**	2018
Exploration and evaluation expense	**2,691**	335	**3,668**	1,789
Per Boe	**0.56**	0.09	**0.28**	0.18

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

Asset retirement obligations

($ thousands)	**September 30, 2019**	December 31, 2018
Balance, January 1	**102,703**	72,430
Accretion expense	**1,458**	1,776
Liabilities acquired	**—**	11,141
Change in discount rate, Pipestone Acquisition	**—**	17,571
Liabilities incurred	**3,559**	3,291
Liabilities disposed	**—**	(14)
Change in estimates	**30,726**	5,791
Change in discount rate	**14,177**	4,175
Liabilities settled	**(13,671)**	(13,458)
Balance, end of period	**138,952**	102,703
Expected to be incurred within one year	**12,600**	12,500
Expected to be incurred beyond one year	**126,352**	90,203

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 September 30, 2019, NuVista had an ARO balance of $139.0 million as compared to $102.7 million as at December 31, 2018. The liability was discounted using the Bank of Canada's long-term risk-free bond rate of 1.5% at September 30, 2019 (December 31, 2018 – 2.2%). At September 30, 2019, the estimated total undiscounted and uninflated amount of cash required to settle NuVista's ARO was $127.8 million (December 31, 2018 – $106.0 million). The majority of the costs are expected to be incurred within the next 50 years. Actual ARO expenditures for the nine months ended September 30, 2019 were $13.7 million compared to $13.5 million for the year ended December 31, 2018.

The ARO liability was increased by $14.2 million as a result of a lower discount rate from December 31, 2018. The Company was very active in the first quarter of 2019 in abandonment and reclamation activities, with $12.7 million of the $13.7 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 $30.7 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 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 incurred $78.2 million in total expenditures for the construction of a compressor station at Pipestone South. The Company has entered into a contract which secured third party ownership and funding of the asset, and has been reimbursed $57.0 million as of September 30, 2019. The balance of these expenditures less reimbursements received have been classified as an other receivable under current assets. Under the terms of the contract, NuVista will be compensated to complete the construction of the asset in exchange for entering into a long term commitment for NuVista operatorship and use of the compressor station. Included in the $78.2 million of expenditures are facilities and equipment expenditures of $14.2 million that were incurred in 2018 and classified as capital expenditures in the year ended December 31, 2018.

Capital expenditures

	Three months ended September 30				Nine months ended September 30			
($ thousands, except % amounts)	**2019**	**% of total**	2018	% of total	**2019**	**% of total**	2018	% of total
Land and retention costs	**68**	**—**	8	—	**982**	**—**	1,879	1
Geological and geophysical	**2,871**	**5**	1,833	3	**6,737**	**3**	5,023	2
Drilling and completion	**35,663**	**56**	52,673	80	**195,237**	**78**	207,094	79
Facilities and equipment	**24,577**	**39**	11,226	17	**45,747**	**19**	48,926	19
Corporate and other	**60**	**—**	77	—	**305**	**—**	437	—
Capital expenditures [1]	**63,239**		65,817		**249,008**		263,359	

[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 nine months ended September 30, 2019 were $63.2 million and $249.0 million respectively. Included in facilities and equipment in the nine months ended September 30, 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 third quarter exploration and development expenditures on completion activities.

Of the $249.0 million capital spent to date in 2019, $244.6 million was classified as property, plant and equipment additions, and $4.4 million was classified as exploration and evaluation asset additions.

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 September 30, 2019, the total right-of-use asset is $118.7 million and the total lease liability is $120.0 million, of which $2.8 million is classified as a current liability.

Asset transactions

On September 6, 2018, the Company closed the acquisition of Cenovus Pipestone ULC and Cenovus Pipestone Partnership (the "Pipestone Acquisition") which held assets in the Pipestone area of Northwest Alberta (the "Acquired Assets") for $619.4 million including customary adjustments. Subsequently, all of the Acquired Assets were assumed by NuVista and the partnership and ULC were dissolved. The Acquired Assets are situated primarily in the condensate-rich Alberta Triassic Montney fairway on 35,250 net acres of land featuring four layers of Montney development, and represented a 29% increase to the Company's Montney land position, adding approximately 9,600 Boe/d per year of production and significant infrastructure. The Pipestone Acquisition was funded with the Company's expanded credit facilities and the issuance of 47.4 million common shares at a price of $8.10 per share for gross proceeds of $384.1 million.

Deferred income taxes

For the three and nine months ended September 30, 2019, the Company recorded tax recoveries of $2.2 million and $28.3 million respectively, compared to expenses of $3.6 million and $15.3 million in the comparable periods of 2018.

The deferred income tax recovery in the second and third quarters of 2019 incorporate the recently announced Alberta corporate income tax rate reduction, being reduced 1% per year from 2019 to 2022, which results in the Alberta corporate income tax rate reduction from 12% to 8%.

Net earnings (loss)

	Three months ended September 30		Nine months ended September 30	
($ thousands, except per share amounts)	**2019**	2018	**2019**	2018
Net earnings (loss)	**(7,650)**	3,467	**(34,276)**	32,159
Per share - basic	**(0.03)**	0.02	**(0.15)**	0.18
Per share - diluted	**(0.03)**	0.02	**(0.15)**	0.18

For the three months ended September 30, 2019 the decrease to net earnings compared to the prior year comparative period net earnings is primarily a result of decreased adjusted funds flow and increased DD&A, offset by a decrease in the unrealized hedging loss and the deferred income tax recovery.

For the nine months ended September 30, 2019, the net loss compared to the prior year comparative period net earnings is primarily as a result of a $44.2 million increase in the unrealized hedging loss, increased DD&A, and decreased adjusted funds flow, offset by an increase in the deferred income tax recovery.

Liquidity and capital resources

Long-term debt (credit facility)

At September 30, 2019, the Company had a $500 million (December 31, 2018 - $450 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 condensate 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 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 October 31 and April 30. During the term period, no principal payments would be required until a year after the revolving period matures on the annual renewal date of April 30, 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 September 30, 2019, NuVista was in compliance with all covenants.

During the third quarter, NuVista requested and received an extension of the renewal date of the credit facility from October 31, 2019 to on or before November 29, 2019 from the banking syndicate.

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.

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 all of the Company's existing 2021 Notes. The full aggregate principal amount of $70.0 million was redeemed resulting in an agreed redemption call premium of $6.6 million and $2.2 million of remaining accretion of the carrying value to face value of the 2021 Notes which is included in interest expense in 2018, for a total incremental expense on payout of $8.8 million.

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

($ thousands)	**September 30, 2019**	December 31, 2018
Basic common shares outstanding	**225,474**	225,306
Share price[1]	**2.48**	4.08
Total market capitalization	**559,176**	919,248
Cash and cash equivalents, accounts receivable and prepaid expenses	**(56,034)**	(53,334)
Other receivable	**(21,202)**	—
Accounts payable and accrued liabilities	**80,918**	90,074
Long-term debt (credit facility)	**356,771**	257,395
Senior unsecured notes	**216,563**	215,892
Other liabilities	**1,138**	1,381
Net debt [2]	**578,154**	511,408
Annualized current quarter adjusted funds flow	**239,196**	254,540
Net debt to annualized current quarter adjusted funds flow	**2.4**	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

As at September 30, 2019, net debt was $578.2 million, resulting in a net debt to annualized current quarter adjusted funds flow ratio of 2.4 times. NuVista's long term strategy is to maintain a net debt to annualized current quarter adjusted funds flow ratio of approximately 1.5 times. The actual ratio may fluctuate on a quarterly basis above or below targeted levels due to a number of factors including facility outages, commodity prices and the timing of acquisitions and dispositions. At September 30, 2019, NuVista had drawn $356.8 million on its long-term debt (credit facility) and had outstanding letters of credit of $8.0 million which reduce the credit available on the credit facility, leaving $135.3 million of unused credit facility capacity based on the committed credit facility of $500.0 million.

NuVista plans to monitor its 2019 business plan and adjust its 2019 budgeted capital program of $300 - $325 million in the context of commodity prices and net debt levels.

As at September 30, 2019, there were 225.5 million common shares outstanding. In addition, there were 7.3 million stock options with an average exercise price of $6.31 per option, 0.7 million RSAs, and 0.6 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 September 30, 2019:

($ thousands)	**Total**	2019	2020	2021	2022	2023	Thereafter
Transportation[1]	**915,012**	17,300	79,399	105,537	103,641	85,245	523,890
Processing [1]	**1,072,241**	11,923	54,938	76,081	90,199	90,783	748,317
Office lease [2]	**6,265**	216	877	939	948	999	2,286
Total commitments [3]	**1,993,518**	29,439	135,214	182,557	194,788	177,027	1,274,493

[1] Certain of the transportation and processing commitments are secured by outstanding letters of credit of $7.3 million at September 30, 2019 (December 31, 2018 - $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 December 31, 2017 to September 30, 2019:

($ thousands, except	**2019**			**2018**				**2017**
per share amounts)	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Production (Boe/d)	**51,819**	50,391	43,839	49,060	40,080	36,035	36,099	37,435
Petroleum and natural gas revenues	**132,801**	137,752	134,064	143,006	150,956	137,131	124,756	131,009
Net earnings (loss)	**(7,650)**	9,301	(35,927)	104,086	3,467	6,322	22,371	34,651
Per basic share	**(0.03)**	0.04	(0.16)	0.46	0.02	0.04	0.13	0.20
Cash flow from operating activities	**48,998**	81,235	53,302	70,447	51,740	63,576	65,294	109,078
Per basic share	**0.22**	0.36	0.24	0.31	0.28	0.36	0.38	0.63
Adjusted funds flow (1)	**59,799**	64,318	71,654	63,635	72,610	69,472	58,732	75,932
Per basic share	**0.27**	0.29	0.32	0.28	0.39	0.40	0.34	0.44

(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, and asset acquisitions in that core area. Production from Wapiti Montney in 2019 is 95% of total production. Total Company production increases since 2017 have more than offset production sold in non core property dispositions. Over the prior eight quarters, quarterly revenue has been in a range of $124.8 million to $151.0 million with revenue primarily influenced by production volumes and commodity prices. Net earnings (losses) have been in a range of a net loss of $35.9 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 15 "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:

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2019**	2018	**2019**	2018
Cash provided by (used in) operating activities	**48,998**	51,740	**183,535**	180,610
Add back:				
Asset retirement expenditures	**556**	2,680	**13,671**	10,623
Change in non-cash working capital (1)	**10,245**	18,190	**(1,434)**	9,580
Adjusted funds flow	**59,799**	72,610	**195,772**	200,813
Adjusted funds flow per share, basic	**0.27**	0.39	**0.87**	1.12
Adjusted funds flow per share, diluted	**0.27**	0.38	**0.87**	1.12

(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:

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2019**	2018	**2019**	2018
Net earnings (loss) and comprehensive income (loss)	**(7,650)**	3,467	**(34,276)**	32,159
Add back:				
Depletion, depreciation, amortization and impairment	**49,648**	38,272	**170,069**	109,624
Exploration and evaluation	**2,691**	335	**3,668**	1,789
Loss (gain) on property dispositions	**—**	—	**(1,934)**	146
Share-based compensation	**1,460**	794	**4,129**	4,337
Unrealized loss (gain) on financial derivatives	**15,299**	25,484	**80,719**	36,565
Deferred income tax expense (recovery)	**(2,169)**	3,590	**(28,304)**	15,316
General and administrative expenses	**4,135**	4,356	**12,372**	13,460
Transaction costs	**—**	2,624	**—**	2,624
Financing costs	**8,987**	5,696	**24,280**	23,168
Operating netback	**72,401**	84,618	**230,723**	239,188
Deduct:				
General and administrative expenses	**(4,135)**	(4,356)	**(12,372)**	(13,460)
Deferred share units recovery (expense)	**1**	229	**243**	(359)
Interest and lease finance expense	**(8,468)**	(5,257)	**(22,822)**	(21,932)
Transaction costs	**—**	(2,624)	**—**	(2,624)
Corporate netback	**59,799**	72,610	**195,772**	200,813

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:

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2019**	2018	**2019**	2018
Cash flow used in investing activities	**(73,741)**	(707,386)	**(283,059)**	(875,535)
Changes in non-cash working capital	**12,521**	23,804	**12,863**	(5,589)
Property acquisitions	**—**	617,765	**—**	617,765
Other receivable	**(2,019)**	—	**21,202**	—
Proceeds on property dispositions	**—**	—	**(14)**	—
Capital expenditures	**(63,239)**	(65,817)	**(249,008)**	(263,359)

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)	**September 30, 2019**	December 31, 2018
Cash and cash equivalents, accounts receivable and prepaid expenses	**(56,034)**	(53,334)
Other receivable	**(21,202)**	—
Accounts payable and accrued liabilities	**80,918**	90,074
Long-term debt (credit facility)	**356,771**	257,395
Senior unsecured notes	**216,563**	215,892
Other liabilities	**1,138**	1,381
Net debt	**578,154**	511,408

Critical accounting estimates

Management is required 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. There have been no material changes to the Company's critical accounting judgments or estimates during the three and nine months ended September 30, 2019, except for the adoption of IFRS 16 as discussed below. Further information on our critical accounting policies and estimates can be found in the notes to the audited annual consolidated financial statements and MD&A for the year ended December 31, 2018.

Update on financial reporting matters

Adopted new accounting standards

Leases

NuVista adopted IFRS 16 - *Leases* ("IFRS 16") on January 1, 2019. IFRS 16 introduces a single recognition and measurement model for leases which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

NuVista adopted IFRS 16 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.

On adoption of IFRS 16, the Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases, short-term and low-value leases, and discounted using the Company’s incremental borrowing rate as of January 1, 2019. The associated right-of-use assets were measured at the amount equal to the lease liability on January 1, 2019, with no impact on retained earnings. The weighted average incremental borrowing rate used to determine the lease liability at adoption was 6%. The right-of-use assets and lease liabilities recognized relate to the Company's head office lease in Calgary, and the field office lease in Grande Prairie.

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 months ended September 30, 2019, 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

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;
- 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; and
- Labour risk related to availability, productivity and retention of qualified personnel.

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, 2018.

2019 guidance re-affirmed and narrowed

We are narrowing our 2019 production guidance range to 51,000 to 52,000 Boe/d and capital spending range to $300 to $310 million. Production for the fourth quarter of 2019 is expected to be in the range of 58,000 to 60,000 Boe/d.

2020 development plans improved

We are pleased to provide an increased production guidance range of 57,000 to 61,000 Boe/d which will be achieved while spending between $300 and $330 million. We will govern this capital range to be approximately matched to adjusted funds flow. We had previously communicated a 57,000 Boe/d target in our $55 WTI Plan with a capital estimate of $300 million. Positioning within the increased range will be largely dependent on continued performance from the wells at Pipestone South, the capital decision to add an additional pad into the Greater Wapiti Area, and on some level of stability in the commodity markets.

Approximately 60% of the wells drilled in 2020 will be in the Pipestone area, with approximately 10 at Pipestone North and 6 at Pipestone South. Production south of the Wapiti River, in the Greater Wapiti area, will remain relatively flat with the drilling of approximately 12 wells. The balance of 2020 capital spending will be directed to continued buildout of our Pipestone area water handling infrastructure.

We remain focused upon returns and profitability. NuVista has successfully de-risked and expanded our Montney asset base over the last several years. Project economics have improved, notwithstanding commodity price challenges, as capital costs have declined through a rigorous focus on technological improvements, costs, and project execution. Sustainability has improved due to our focus upon returns, GHG emission reduction, and a disciplined approach to balance sheet strength. We are in an enviable position to continue to deliver profitable, sustainable growth for many years to come. During 2021, we expect to arrive at the point where adjusted funds flow will exceed the required capital to maintain production levels at the future minimum volume commitment of 68,000 Boe/d. The outlook is premised on capital spending approximately equal to adjusted funds flow in 2020 and 2021 while increasing production levels at 10-15% per year. This plan creates maximum value and provides flexibility beyond 2021 to moderate the growth in order to maximize our free adjusted funds flow generating capacity, or continue growing toward the total firm capacity of 90,000 Boe/d, or add an additional growth wedge up to 110,000 Boe/d as underpinned by our inventory. Beyond 2021, the decision to use free funds flow to reduce net debt, return capital to shareholders, or to grow our production base further depends on which option provides the maximum value to NuVista shareholders at the time. We are fortunate to have significant flexibility in that regard.