

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") unaudited interim consolidated financial statements for the three months ended March 31, 2011 and NuVista's audited consolidated financial statements for the year ended December 31, 2010. The following MD&A of financial condition and results of operations was prepared at and is dated May 25, 2011. Our December 31, 2010 audited consolidated financial statements, Annual Information Form and other disclosure documents for 2010 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"), specifically International Financial Reporting Standards ("IFRS") 1, "First Time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Previously, NuVista prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles in effect prior to January 1, 2011 ("Previous GAAP"). Comparative figures presented below pertaining to NuVista's 2010 results have been restated to be in accordance with IFRS. A reconciliation of comparative figures from Previous GAAP and IFRS is provided in the notes to the March 31, 2011 unaudited interim consolidated financial statements. The reporting and measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel of oil equivalent ("Boe") using six thousand cubic feet of natural gas equal to one barrel of oil, unless otherwise stated. In certain circumstances natural gas liquid volumes have been converted to thousand cubic feet equivalent ("Mcf") on the basis of one barrel of natural gas liquids to six thousand cubic feet. Boes and Mcfs 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.

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 strategy, plans, opportunities and operations; financial risk management strategy; forecast production; production mix; drilling, development, completion and tie-in plans and results; plans regarding new drilling and completion technology and the results therefrom; NuVista's planned capital budget; targeted debt level; the timing, allocation and efficiency of NuVista's capital program and the results therefrom; plans regarding facility construction and/or expansions, the timing thereof and the results therefrom; the anticipated potential of NuVista's asset base; forecast funds from operations; the source of funding of capital expenditures; the objectives and focus of the 2011 capital program and the allocation thereof and results therefrom; anticipated operating costs and other expenses; asset retirement obligations and the amount and timing of expenditures and the source of funding thereof; expectations regarding future commodity prices and netbacks; and industry conditions. 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 funds from operations, 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, 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 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 funds from operations to analyze operating performance and leverage. Funds from operations as presented, does not have any standardized meaning prescribed by GAAP and Previous GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Funds from operations 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 and Previous GAAP. All references to funds from operations throughout this MD&A are based on cash flow from operating activities before changes in non-cash working capital and asset retirement expenditures. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net earnings (loss) per share. Funds from operations netbacks equal total revenue including realized commodity derivative gains/losses less royalties, transportation, operating costs, general and administrative, restricted stock unit, interest expense and cash taxes. Management also uses operating netbacks to analyze operating performance and adjusted working capital to analyze leverage. Operating netbacks and adjusted working capital as presented, do not have any standardized meaning prescribed by GAAP and Previous GAAP and therefore, may not be comparable with the calculation of similar measures for other entities. Operating netbacks equal the total of revenue including realized commodity derivative gains/losses less royalties, transportation and operating costs. Adjusted working capital equals working capital excluding the current portion of the commodity derivative asset or liability and assets held for sale. Total Boe is calculated by multiplying the daily production by the number of days in the period.

Description of business – NuVista is an oil and natural gas company actively engaged in the exploration for and the development and production of oil and natural gas reserves. NuVista's assets are concentrated within three core regions of the Western Canadian Sedimentary Basin – Alberta Deep Basin, Eastern Alberta and Saskatchewan, and Northwest Alberta and British Columbia. The common shares of NuVista trade on the Toronto Stock Exchange ("TSX") under the symbol NVA.

Operating activities – For the three months ended March 31, 2011, NuVista drilled 11 (7.6 net) wells resulting in 8 (6.5 net) oil wells and 3 (1.1 net) natural gas wells for an overall success rate of 100%. NuVista drilled 3 (2.3 net) heavy oil wells at Zoller Lake and Hallam in west central Saskatchewan, 2 (2.0 net) Wapiti Cardium oil wells and 3 (2.3 net) Pembina Cardium oil wells. NuVista also drilled 3 (1.1 net) natural gas wells in its Wapiti and Pembina operating areas. NuVista operated eight of the 11 wells drilled and had an average working interest of 79.4% in the wells.

Production

	Three months ended March 31,		
	2011	2010	% Change
Natural gas (Mcf/d)	107,360	124,485	(14)
Liquids (Bbls/d)	3,094	3,303	(6)
Oil (Bbls/d)	5,091	4,405	16
Total oil equivalent (Boe/d)	26,078	28,455	(8)

For the three months ended March 31, 2011, NuVista's average production was 26,078 Boe/d, comprised of 107.4 MMcf/d of natural gas, 3,094 Bbls/d of associated natural gas liquids ("liquids") and 5,091 Bbls/d of oil, which represents an overall 8% average decrease compared to the same period in 2010. The decrease in NuVista's production during the three months ended March 31, 2011 compared to the same period in 2010 was primarily due to the impact of lower capital spending in the fourth quarter of 2010 and the first quarter of 2011, unplanned third-party facility outages resulting in shut-in production of approximately 600 Boe/d, colder than normal winter weather conditions and a focus on drilling oil wells that add greater value but typically have lower average production additions. Oil and liquids weighting in the first quarter of 2011 increased to 31% from 27% in the same period in 2010 and 28% in the fourth quarter of 2010. The increase in oil and liquids production and weighting reflects our increased focus on higher netback oil and liquids-rich natural gas projects.

Commodity Prices

Benchmark Pricing

	Three months ended March 31,		
	2011	2010	% Change
Natural gas – AECO (daily) (\$/GJ)	3.56	4.69	(24)
Natural gas – AECO (monthly) (\$/GJ)	3.58	5.08	(30)
Oil – WTI (US\$/Bbl)	94.10	78.71	20
Oil – Edmonton Par price (Cdn\$/Bbl)	83.53	80.22	4
Exchange rate (Cdn\$/US\$)	0.9860	1.0409	5

Average Selling Prices ⁽¹⁾

	Three months ended March 31,		
	2011	2010	% Change
Natural gas (\$/Mcf)	3.99	5.42	(26)
Natural gas liquids (\$/Bbl)	58.66	53.94	9
Oil (\$/Bbl)	72.69	72.48	-

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

NuVista markets its natural gas based on a mix of monthly and daily AECO pricing. The AECO daily index averaged \$3.56/GJ for the quarter and the monthly index averaged \$3.58/GJ. This compares to \$4.69/GJ and \$5.08/GJ respectively for the same period last year. NuVista's realized gas price for the quarter was \$3.99/Mcf compared to \$5.42/Mcf for the first quarter in 2010. The higher heat content of NuVista's gas stream is reflected in the higher realization on an Mcf basis.

The price NuVista receives for its oil production is primarily driven by the price of WTI, less a discount to western Canada for heavier grades. NuVista's light oil sales closely match the Edmonton Par price and heavy oil sales closely match the Western Canadian Select ("WCS") heavy oil benchmark. Even though WTI prices were 20% higher in the first quarter of 2011 compared to first quarter 2010, realized oil prices were relatively unchanged. This is due to a strengthening Canadian dollar and a US\$13.70/Bbl widening of the WCS differential to WTI.

Natural gas liquids include ethane, propane, butane, pentane and condensate. Ethane prices are highly correlated to natural gas prices and condensate prices are highly correlated to light oil prices.

Propane, butane and pentane trade at varying discounts to light oil prices depending on market conditions. NuVista realized an average of \$58.66/Bbl for liquids sales in the first quarter of 2011 representing approximately a 9% increase over the same period last year.

Revenues

(\$ thousands, except per unit amounts)	Three months ended March 31,					
	2011		2010		% Change	
Natural gas	\$	\$/Mcf	\$	\$/Mcf	\$	\$/Mcf
Revenue ⁽¹⁾	38,594	3.99	60,753	5.42	(36)	(26)
Realized gain (loss) on commodity derivatives	256	0.03	-	-	-	-
Total natural gas	38,850	4.02	60,753	5.42	(36)	(26)
Liquids	\$	\$/Bbl	\$	\$/Bbl	\$	\$/Bbl
Revenue	16,335	58.66	16,033	53.94	2	9
Realized gain (loss) on commodity derivatives	-	-	-	-	-	-
Total liquids	16,335	58.66	16,033	53.94	2	9
Oil	\$	\$/Bbl	\$	\$/Bbl	\$	\$/Bbl
Revenue	33,308	72.69	28,733	72.48	16	-
Realized gain (loss) on commodity derivatives	(3,214)	(7.01)	(1,719)	(4.34)	87	62
Total oil	30,094	65.68	27,014	68.14	11	(4)
Total	\$	\$/Boe	\$	\$/Boe	\$	\$/Boe
Revenue	88,237	37.59	105,519	41.20	(16)	(9)
Realized gain (loss) on commodity derivatives	(2,958)	(1.26)	(1,719)	(0.67)	72	88
Total revenue	85,279	36.33	103,800	40.53	(18)	(10)

⁽¹⁾ Natural gas revenue includes price risk management gains and losses on physical sale contracts. For the three months ended March 31, 2011, our physical sale contracts totaled \$nil (2010 - \$0.2 million loss).

For the three months ended March 31, 2011, revenues including realized commodity derivative gains and losses were \$85.3 million, an 18% decrease from \$103.8 million for the same period in 2010. The decrease in revenues for the three months ended March 31, 2011 compared to the same period of 2010 is primarily due to a 10% decrease in overall realized prices, mainly attributable to the decrease in natural gas prices and an 8% decrease in production volumes. Revenues were comprised of \$38.9 million of natural gas revenue, \$16.3 million of liquids revenue and \$30.1 million of oil revenue. The decrease in average realized commodity prices is comprised of a 26% decrease in the natural gas price to \$4.02/Mcf from \$5.42/Mcf, a 9% increase in the liquids price to \$58.66/Bbl from \$53.94/Bbl and a 4% decrease in the oil price to \$65.68/Bbl from \$68.14/Bbl.

Commodity price risk management

(\$ thousands)	Three months ended March 31,					
	2011			2010		
	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)
Natural gas	256	(841)	(585)	-	310	310
Oil	(3,214)	(3,984)	(7,198)	(1,719)	(644)	(2,363)
Total gain (loss)	(2,958)	(4,825)	(7,783)	(1,719)	(334)	(2,053)

As part of our financial risk management strategy, NuVista has adopted a disciplined commodity price risk management program. The purpose of this program is to reduce volatility in our financial results, protect acquisition economics and help stabilize cash flow against the unpredictable commodity price environment. NuVista's Board of Directors has approved a price risk management limit of up to 60% of forecast production, net of royalties, using fixed price, differential, put option and costless collar contracts. To achieve NuVista's price risk management objectives, we enter into both commodity derivative and physical sale contracts.

For the three months ended March 31, 2011, the commodity price risk management program resulted in a loss of \$7.8 million, consisting of realized losses of \$3.0 million and \$4.8 million of unrealized losses on natural gas and oil contracts. As at March 31, 2011, the mark-to-market value of our financial derivative commodity contracts was a liability of \$10.2 million.

For the three months ended March 31, 2011, our physical sale contracts are being accounted for as they settle. The physical sale contracts are purchase and sale transactions entered into the normal course of business. No asset or liability value has been assigned to the contracts on the statement of financial position at March 31, 2011.

The following is a summary of commodity price risk management contracts in place as at March 31, 2011:

(a) Financial instruments

As at March 31, 2011, NuVista has entered into the following crude oil put option contracts:

Volume	Average Strike Price (Cdn\$/Bbl)	Option Premium (Cdn\$/Bbl)	Term
3,000 Bbls/d	\$88.03 – WTI	\$9.29 ⁽¹⁾	Apr 1, 2011 – Dec 31, 2011
2,000 Bbls/d	\$88.55 – WTI	\$9.43 ⁽¹⁾	Jan 1, 2012 – Mar 31, 2012

⁽¹⁾ The premiums are incurred monthly over the term of the contract and will be offset against revenues.

As at March 31, 2011, NuVista has entered into a financial derivative crude oil fixed price contracts as follows:

Volume	Fixed price (Cdn\$/Bbl)	Term
1,000 Bbls/d	\$97.50 – WTI	Apr 1, 2011 – Jun 30, 2012

As at March 31, 2011, NuVista has entered into NYMEX natural gas basis differential contracts as follows:

Volume	Differential (US\$/Mmbtu)	Term
40,000 MMBtu/d	\$(0.46)	Apr 1, 2011 – Oct 31, 2011
30,000 MMBtu/d	\$(0.51)	Nov 1, 2011 – Mar 31, 2012

Subsequent to March 31, 2011, the following NYMEX natural gas basis differential contracts have been entered into:

Volume	Differential (US\$/Mmbtu)	Term
20,000 MMBtu/d	\$(0.59)	Apr 1, 2012 – Oct 31, 2012

(b) Physical purchase and sale contracts

As at March 31, 2011, NuVista has entered into a fixed price contract for the purchase of electricity as follows:

Volume	Price (Cdn\$/Mwh)	Term
4.0 Mwh	\$65.64	Apr 1, 2011 – Dec 31, 2013

These physical purchase and sale contracts are documented as normal purchase and sale transactions and as such are not considered financial instruments. Physical purchase and sale contracts are being accounted for as they settle.

Royalties

Royalty rates (%)	Three months ended March 31,	
	2011	2010
Natural gas and liquids	15	16
Oil	13	16
Weighted average rate	14	16

For the three months ended March 31, 2011, royalties were \$12.4 million, 26% lower than the \$16.8 million for the same period of 2010. The decrease in royalties for the period ended March 31, 2011 compared to the same period in 2010 is largely due to a 16% decrease in revenues.

Average royalty rates by product for the three months ended December 31, 2010 were 15% for natural gas and liquids and 13% for oil compared to 16% for natural gas and liquids and 16% for oil for the same period in 2010. As a percentage of revenue, the reported average royalty rate for the three months ended March 31, 2011 was 14% compared to 16% for the comparative period of 2010. The decrease in oil royalty rates is primarily due to our increased oil production in west central Saskatchewan that have lower royalty rates.

Our physical price risk management activities impact reported royalty rates as royalties are based on government market reference prices and not our average realized prices that include price risk management activities. In the first quarter of 2011, there were no physical price risk management activities included in revenue.

Transportation – Transportation costs were \$1.9 million (\$0.83/Boe) for the three months ended March 31, 2011 as compared to \$2.3 million (\$0.91/Boe) for the same period of 2010. The transportation costs for the three months ended March 31, 2011 were lower compared to the same period in 2010 due to lower production volumes in the first quarter of 2011 and lower transportation costs associated with increased oil production in our Pembina area.

Operating – Operating expenses were \$27.0 million (\$11.50/Boe) for the three months ended March 31, 2011 as compared to \$22.7 million (\$8.87/Boe) for the three months ended March 31, 2010 and \$26.2 million (\$10.09/Boe) for the three months ended December 31, 2010. Operating expenses increased throughout 2010 due to general cost increases impacting the oil and natural gas industry. Operating costs continued to increase in the three months ended March 31, 2011 primarily due to increased costs associated with winter operations and higher power and fuel costs. On a short-term basis most operating costs are fixed costs and with lower production volumes for the three months ended March 31, 2011, there was an increase in per unit costs. Managing operating costs will be a key focus over the remainder of the year as we shift to typically higher value and higher cost oil and liquids-rich natural gas production. For the three months ended March 31, 2011, natural gas and liquids operating expenses averaged \$1.76/Mcfe and oil operating expenses were \$15.46/Bbl as compared to \$1.19/Mcfe and \$18.41/Bbl respectively for the same period of 2010.

Operating netbacks – The table below summarizes operating netbacks by product for the three months ended March 31, 2011:

(\$ thousands, except per unit amounts)	Natural gas and liquids		Oil		Total	
	\$	\$/Mcfe	\$	\$/Bbl	\$	\$/Boe
Revenue	54,929	4.85	33,308	72.69	88,237	37.59
Realized gain (loss) on commodity derivatives	256	0.02	(3,214)	(7.01)	(2,958)	(1.26)
	55,185	4.87	30,094	65.68	85,279	36.33
Royalties	(8,139)	(0.72)	(4,279)	(9.34)	(12,418)	(5.29)
Transportation costs	(1,345)	(0.12)	(597)	(1.30)	(1,942)	(0.83)
Operating costs	(19,921)	(1.76)	(7,082)	(15.46)	(27,003)	(11.50)
Operating netback ⁽¹⁾	25,780	2.27	18,136	39.58	43,916	18.71

⁽¹⁾ Refer to “non-GAAP measurements”.

General and administrative

(\$ thousands, except per unit amounts)	Three months ended March 31,	
	2011	2010
Gross general and administrative expenses	6,180	6,152
Overhead recoveries	(1,270)	(1,554)
Net general and administrative expenses	4,910	4,598
Per Boe	2.09	1.80

General and administrative expenses, net of overhead recoveries, for the three months ended March 31, 2011 were \$4.9 million (\$2.09/Boe) compared to \$4.6 million (\$1.80/Boe) in the same period of 2010. The increase in general and administrative expenses in 2011 compared to 2010 is primarily due to an increase in staffing levels, one-time costs associated with a partnership rationalization with Bonavista Energy Corporation and a decrease in overhead recoveries as a result of lower capital spending.

Share-based compensation

(\$ thousands)	Three months ended March 31,	
	2011	2010
Share-based compensation	1,096	1,486
Restricted stock units	509	300
Total	1,605	1,786

NuVista recorded a share-based compensation charge of \$1.6 million for the three months ended March 31, 2011 compared to \$1.8 million for the same period in 2010. The share-based

compensation charge relates to the amortization of the fair value of stock option awards and the accrual for future payments under the Restricted Stock Unit Incentive Plan.

Interest – Interest expense for the three months ended March 31, 2011 was \$5.2 million (\$2.21/Boe) compared to \$3.9 million (\$1.54/Boe) for the same period of 2010. For the three months ended March 31, 2011, borrowing costs averaged 4.4% compared to 3.2% in the same period of 2010. Interest expense for the quarter ended March 31, 2011 increased compared to the same period in 2010 due to higher debt levels at the beginning of 2011 and an increase in the average borrowing rate. Currently, NuVista’s average borrowing rate is approximately 4.5%. Cash paid for interest for the three months ended March 31, 2011 was \$5.9 million (March 31, 2010 – \$4.3 million).

Depreciation and depletion

(\$ thousands except per Boe amounts)	Three months ended March 31,	
	2011	2010
Depletion of oil and gas assets ⁽¹⁾	34,145	34,780
Depreciation of fixed assets	4,553	3,541
Total depletion and depreciation ⁽²⁾	38,698	38,321
Depletion and depreciation rate per Boe	16.49	15.16

⁽¹⁾ Includes depletion of the capitalized portion of the asset retirement obligation that was capitalized to the property, plant and equipment balance and is being depleted over the life of the reserves.

⁽²⁾ Total depletion and depreciation excludes impairment losses for the three months ended March 31, 2011 of \$nil and \$2.4 million in the same period in 2010.

Depreciation and depletion expenses were \$38.7 million for the first quarter of 2011 as compared to \$38.3 million for the same period in 2010. The average per unit cost was \$16.49/Boe in the first quarter of 2011 as compared to \$15.16/Boe for the same period in 2010. Per unit costs in the first quarter of 2011 increased from the same period in 2010 due primarily to higher finding and development costs incurred during the quarter.

Asset retirement obligations – Asset retirement obligations (“ARO”) are based on estimated costs to reclaim and abandon ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. At March 31, 2011, NuVista recorded an ARO of \$128.2 million as compared to \$128.3 million as at December 31, 2010. At March 31, 2011, the estimated total undiscounted amount of cash flows required to settle NuVista’s ARO is \$242.2 million (December 31, 2010 – \$232.4 million), which is estimated to be incurred over the next 51 years. The majority of the costs are expected to be incurred between 2011 and 2030. An average risk-free rate of 3.75% and an inflation rate of 2% were used to calculate the fair value of the ARO.

There are uncertainties related to asset retirement obligations and the impact on the financial statements could be material as the eventual timing of costs to settle these obligations could differ from our estimates. The main factors that could cause expected cash flows 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.

Income taxes – For the three months ended March 31, 2011, the provision for income and other taxes was a recovery of \$2.9 million compared to an expense of \$2.4 million for the same period in 2010. The increase in recovery for the quarter ended March 31, 2011 compared to the same period in 2010 is primarily attributable to a decrease in income after adjusting for non-deductible tax items in the periods.

Capital expenditures

(\$ thousands)	Three months ended March 31,	
	2011	2010
Exploration and development		
Land and retention costs	1,693	6,222
Seismic	1,870	4,540
Drilling and completion	31,994	56,424
Facilities and equipment	7,136	14,822
Corporate and other	91	244
Subtotal	42,784	82,252
Alberta drilling incentive credits	(3,070)	(6,434)
Subtotal	39,714	75,818
Property acquisitions (dispositions)	62	-
Net capital expenditures	39,776	75,818

Capital expenditures were \$39.8 million during the first quarter of 2011, consisting of \$39.7 million of exploration and development spending (net of drilling credits) and \$0.1 million in property acquisitions. This compares to \$75.8 million incurred for the same period of 2010, consisting entirely of exploration and development spending. To assist in improving NuVista's financial flexibility, our first quarter 2011 capital program was lower than prior years to ensure that 2011 first half capital expenditures were lower than forecast cash flows. The majority of the capital expenditures in the first quarter was spent on oil and liquids-rich natural gas projects. Subsequent to the end of the first quarter, NuVista closed the sale of certain Pembina properties consisting of approximately 250 Boe/d of production and undeveloped lands for proceeds of approximately \$36.5 million.

Net earnings – For the three months ended March 31, 2011, the net loss was \$9.6 million (\$0.10/share, basic) compared to net loss of \$14.1 million (\$0.16/share, basic) for the same period in 2010. The net loss for the quarter ended March 31, 2011 decreased compared to the same period in 2010 primarily due to goodwill impairment being recognized in 2010 and lower royalty rates in 2011 offset by lower natural gas prices and higher operating costs.

Funds from operations – For the three months ended March 31, 2011, NuVista's funds from operations were \$33.3 million (\$0.36/share, basic), a 37% decrease from \$53.1 million (\$0.60/share, basic) for the three months ended March 31, 2010. Funds from operations for the three months ended March 31, 2011 were lower than the same period in 2010 primarily due to lower natural gas prices and higher operating costs partially offset by lower royalty costs.

A reconciliation of funds from operations is presented in the following table:

(\$ thousands)	Three months ended March 31,	
	2011	2010
Cash provided by operating activities	23,594	55,914
Add back:		
Asset retirement expenditures	3,398	5,271
Change in non-cash working capital	6,307	(8,078)
Funds from operations ⁽¹⁾	33,299	53,107

⁽¹⁾ Refer to "non-GAAP measurements".

The table below summarizes funds from operations netbacks for the three months ended March 31, 2011 compared to the three months ended March 31, 2010:

(\$ thousands, except per unit amounts)	Three months ended March 31,					
	2011		2010		% Change	
	\$	\$/Boe	\$	\$/Boe	\$	\$/Boe
Revenue	88,237	37.59	105,519	41.20	(16)	(9)
Realized gain (loss) on commodity derivatives	(2,958)	(1.26)	(1,719)	(0.67)	72	88
	85,279	36.33	103,800	40.53	(18)	(10)
Royalties	(12,418)	(5.29)	(16,814)	(6.57)	(26)	(19)
Transportation	(1,942)	(0.83)	(2,329)	(0.91)	(17)	(9)
Operating costs	(27,003)	(11.50)	(22,706)	(8.87)	19	30
Operating netback	43,916	18.71	61,951	24.18	(29)	(23)
General and administrative	(4,910)	(2.09)	(4,598)	(1.80)	7	16
Restricted stock units	(509)	(0.22)	(300)	(0.12)	70	83
Interest	(5,198)	(2.21)	(3,946)	(1.54)	32	44
Funds from operations netback ⁽¹⁾	33,299	14.19	53,107	20.72	(37)	(32)

⁽¹⁾ Refer to "non-GAAP measurements".

Liquidity and capital resources

(\$ thousands)	Three months ended March 31,	
	2011	2010
Common shares outstanding	99,372	88,516
Share price ⁽¹⁾	10.00	11.65
Total market capitalization	993,720	1,031,211
Adjusted working capital (surplus) deficit ⁽²⁾	(1,333)	13,334
Bank debt	356,356	384,995
Debt, net of adjusted working capital ("Net Debt")	355,023	398,329
Trailing 12 months funds from operations ⁽²⁾	150,122	186,578
Net debt to trailing 12 months funds from operations	2.4	2.1
Net debt as a percentage of total capitalization	36%	39%

⁽¹⁾ Represents the closing price on the Toronto Stock Exchange on March 31.

⁽²⁾ Refer to the "non-GAAP measurements".

As at March 31, 2011, debt net of adjusted working capital was \$355.0 million, resulting in a net debt to the trailing twelve months funds from operations ratio of 2.4:1. At March 31, 2011, NuVista had an adjusted working capital surplus of \$1.3 million. Adjusted working capital excludes the current portion of the fair value of the commodity derivative liability of \$6.7 million and assets held for sale of \$10.7 million. We believe it is appropriate to exclude this amount when assessing financial leverage. At March 31, 2011, NuVista had \$153.6 million of unused bank borrowing capacity based on the current credit facility of \$510 million.

As of March 31, 2011, NuVista had a \$510 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 stamping fee. The credit facility is secured by a first floating charge debenture, general assignment of book debts and NuVista's oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a determination of the maximum borrowing amount occurs semi-annually on or before October 31. In May 2011, NuVista completed the annual review of its borrowing base with its lenders and the lenders have approved a request for a revolving extendible credit facility with a maximum borrowing amount of \$470 million. During the term period, no principal payments would be required until April 29, 2013. As such, this credit facility is classified as long-term. As at March 31, 2011, NuVista had drawn \$356.4 million on the facility.

At March 31, 2011, NuVista's bank debt net of adjusted working capital decreased to \$355.0 million compared to \$444.1 million at December 31, 2010. Improving NuVista's financial flexibility and reducing debt levels has been a priority in 2011. During the first quarter of 2011, NuVista issued 10,500,000 common shares for gross proceeds of \$99.8 million, terminated its dividend payments and constrained capital expenditures to ensure that 2011 first half capital expenditures will be lower than forecast cash flow. Also in the quarter, NuVista entered into a property disposition agreement for approximately \$36.5 million that closed subsequent to quarter end. NuVista plans to closely monitor its 2011 business plan and adjust its capital program in the context of commodity prices and debt levels. NuVista plans to finance its 2011 capital program with funds from operating activities.

As at March 31, 2011, there were 99.4 million common shares outstanding. In addition, there were 7.0 million stock options outstanding, with an average exercise price of \$12.14 per share. As of May 20, 2011, there were 99.5 million common shares outstanding.

Contractual obligations and 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 March 31, 2011:

	Total	2011	2012	2013	2014	2015	There- after
Transportation	\$ 11,472	\$2,960	\$ 2,813	\$2,493	\$2,060	\$1,002	\$ 144
Office lease	9,930	1,559	1,940	1,306	1,306	1,316	2,503
Purchase commitments	6,437	3,547	2,890	-	-	-	-
Physical power contract	6,325	1,725	2,300	2,300	-	-	-
Long-term debt ⁽¹⁾	356,356	-	356,356	-	-	-	-
Total commitments	\$390,520	\$9,791	\$366,299	\$6,099	\$3,366	\$2,318	\$2,647

⁽¹⁾ Based on the new credit facility agreement entered into in May 2011, no principal payments would be required until April 29, 2013.

Off "balance sheet" arrangements – NuVista has certain lease arrangements, all of which are reflected in the contractual obligations and commitments table, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases in the statement of financial position at March 31, 2011.

Goodwill – Goodwill of \$34.6 million was recorded from various business acquisitions and was determined based on the excess of total consideration paid less the fair value of the assets and liabilities acquired. IFRS standards require that the goodwill balance be assessed for impairment at least annually or more frequently if events or changes in circumstances indicate that the balance might be impaired. If such impairment exists, it would be charged to income in the period in which the impairment occurs.

Dividends – In the fourth quarter of 2010, NuVista's Board of Directors declared a quarterly cash dividend of \$0.05 per common share which was paid on January 17, 2011 to shareholders of record on December 31, 2010 and issued 89,945 common shares in payment of \$0.8 million of dividends for shareholders that elected to participate in the dividend re-investment plan. Dividends paid to shareholders of common shares have been designated as "eligible dividends" for Canadian tax purposes.

In February 2011, as part of managing NuVista's re-evaluation of its business plan and financial objectives, NuVista's Board of Directors determined that NuVista will discontinue its dividends to shareholders and use this cash flow to improve financial flexibility and fund its drilling program and growth opportunities.

Relationship with Bonavista Energy Corporation – NuVista and Bonavista Energy Corporation ("Bonavista") are considered related as two directors of NuVista, one of whom is NuVista's chairman, are directors and officers of Bonavista and another director of NuVista is also an officer of Bonavista.

In February 2011, NuVista and Bonavista entered into a series of transactions that resulted in Bonavista no longer having ownership in a jointly owned partnership. The results of these transactions have no material impact on NuVista's total production, cash flow or reserves.

Quarterly financial information – The following table highlights NuVista's performance for the eight quarterly reporting periods from June 30, 2009 to March 31, 2011:

	2011		2010				2009 ⁽¹⁾	
(\$ thousands, except per share amounts)	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Production (Boe/d)	26,078	28,165	28,244	28,512	28,455	28,345	27,505	25,777
Revenue	88,237	89,552	88,733	89,524	105,519	95,957	79,494	78,092
Net earnings (loss)	(9,590)	(20,965)	(18,194)	(6,417)	(14,079)	10,498	(3,342)	(7,312)
Net earnings (loss)								
Per basic share	(0.10)	(0.24)	(0.21)	(0.07)	(0.16)	0.12	(0.04)	(0.09)
Per diluted share	(0.10)	(0.24)	(0.21)	(0.07)	(0.16)	0.12	(0.04)	(0.09)

⁽¹⁾ Results are reported in accordance with Previous GAAP.

NuVista has seen production volumes in a range of 25,777 Boe/d to 28,512 Boe/d for the last eight quarters as incremental production from our exploration and development capital program and acquisitions have more than offset normal production declines. In the most recent quarter, NuVista's production volumes declined to 26,078 Boe/d due to lower capital expenditures, unplanned third-party plant outages resulting in shut-in production, winter conditions, and an increased emphasis on oil and liquids-rich natural gas projects. Over the prior eight quarters, quarterly revenue has been in a range of \$78.1 million to \$105.5 million with revenue primarily influenced by production volumes and commodity prices in the quarter. Net earnings have been in a range of a net loss of \$21.0 million to net earnings of \$10.5 million with earnings primarily influenced by IFRS impairments, production volumes, commodity prices and realized and unrealized gains and losses on commodity derivatives.

Critical accounting estimates – Management is required to make judgements, assumptions and estimates in applying its accounting policies which have significant impact on the financial results of NuVista. The following outline the accounting policies involving the use of estimates that are critical to understanding the financial condition and results of operations of NuVista.

- (a) **Oil and natural gas reserves** – Oil and natural gas reserves, as defined by the Canadian Securities Administrators in National Instrument 51-101 with reference to the Canadian Oil and Natural Gas Evaluation Handbook, are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated reserves.

An independent reserve evaluator using all available geological and reservoir data as well as historical production data has prepared NuVista's oil and natural gas reserve estimates. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in NuVista's development plans. The effect of changes in oil and natural gas reserves on the financial results and position of NuVista is described below.

- (b) **Exploration and evaluation assets** – The costs of drilling exploratory wells are initially capitalized as exploration and evaluation ("E&E") assets pending the evaluation of commercial reserves. Commercial reserves are defined as the existence of proved and probable reserves which are determined to be technically feasible and commercially viable to extract. Reserves may be considered commercially producible if management has the intention of developing and producing them based on factors such as project economics, quantities of reserves, expected production techniques, unsuccessful drilling and estimated production costs and capital expenditures. Once a judgment is made that the reserves are commercially viable, an impairment test is performed prior to the reclassification to property, plant and equipment.

- (c) **Development and production assets** – Once an oil and gas property is reclassified to property, plant and equipment, all subsequent development costs are capitalized.
- (d) **Depreciation and depletion** – Property, plant and equipment is measured at cost less accumulated depletion, depreciation and impairment losses. The net carrying value of property, plant and equipment and estimated future development costs is depleted using the unit-of-production method based on estimated proved and probable reserves. Changes in estimated proved and probable reserves or future development costs have a direct impact in the calculation of depletion expense.

NuVista is required to use judgment when designating the nature of oil and gas activities as exploration and evaluation assets or development and production assets within property, plant and equipment. Exploration and evaluation assets and development and production assets are aggregated into cash generating units (“CGUs”) based on their ability to generate largely independent cash flows. The allocation of NuVista’s assets into CGUs requires significant judgment with respect to use of shared infrastructure, existence of active markets for NuVista’s products and the way in which management monitors operations.

Exploration and evaluation expenditures relating to activities to explore and evaluate oil and natural gas properties are initially capitalized and include costs associated with the acquisition of licenses, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, and costs associated with retiring the assets. Exploration and evaluation assets are carried forward until technical feasibility and commercial viability of extracting a mineral resource is determined. Technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when proved and/or probable reserves are determined to exist. E&E assets are tested for impairment when facts and circumstances suggest that the carrying amount of E&E assets may exceed their recoverable amount, by comparing the relevant costs to the fair value of CGUs, aggregated at the segment level. The determination of the fair value of CGUs requires the use of assumptions and estimates including quantities of recoverable reserves, production quantities, future commodity prices and development and operating costs. Changes in any of these assumptions, such as a downward revision in reserves, decrease in commodity prices or increase in costs, could impact the fair value.

NuVista assesses property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. If any such indication of impairment exists, NuVista performs an impairment test related to the specific CGU. The determination of fair value of CGUs requires the use of assumptions and estimates including quantities of recoverable reserves, production quantities, future commodity prices and development and operating costs. Changes in any of these assumptions, such as a downward revision in reserves, decrease in commodity prices or increase in costs, could impact the fair value.

- (e) **Asset retirement obligation** – The asset retirement obligations are estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonments and reclamations discounted at a risk free rate. The costs are included in property, plant and equipment and amortized over its useful life. The liability is adjusted each reporting period to reflect the passage of time, with the accretion expense charged to earnings, and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the consolidated financial statements could be material.
- (f) **Income taxes** – The determination of income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.
- (g) **Financial instruments** – NuVista utilizes financial instruments to manage the exposure to

market risks relating to commodity prices. Fair values of derivative contracts fluctuate depending on the underlying estimate of future commodity prices and foreign currency exchange rates.

- (h) **Goodwill** – Goodwill is recorded on a business combination when the total purchase consideration exceeds the fair value of the net identifiable assets and liabilities of the acquired entity. The goodwill balance is allocated to the individual CGUs that are expected to benefit from the synergies of the business combination. Goodwill is not amortized, however it must be assessed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. To assess for impairment, the carrying amount of each CGU is compared to the recoverable amount. If the carrying amount exceeds the recoverable amount, the associated goodwill is written down with an impairment recognized in net earnings. Goodwill impairments are not reversed. The recoverable amount is the greater of the fair value less costs to sell and its value in use. Fair value less costs to sell is derived by estimating the discounted future net cash flows for the CGU. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the proved and probable reserves and discounted using market-based rates. A downward revision in reserves estimates could result in the recognition of a goodwill impairment charge to net earnings.

Update on regulatory matters

Environmental – The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of federal, provincial, and local laws and regulation. Environmental legislation provides for, among other things, restrictions and prohibitions on emissions, releases or spills of various substances produced in association with oil and natural gas operations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, as well as larger fines and environmental liability. No assurance can be given that the application of environmental laws to the business and operations of NuVista will not result in a limitation of production or a material increase in the costs of operating, development, or exploration activities or otherwise adversely affect NuVista's financial condition, results of operations, or prospects.

NuVista utilizes monitoring and reporting programs, as well as inspections and audits for environmental, health, and safety performance that are designed to provide assurance that environmental and regulatory standards are met. In the event of unknown or unforeseeable environmental impacts arising from its operations, NuVista may be subject to remedial and litigation costs. Contingency plans are in place for a timely response to environmental events and for the utilization of remediation/reclamation strategies to restore the environment in the event of such impacts.

Given the evolving nature of climate change discussion, the regulation of greenhouse gases ("GHGs") and potential federal and provincial GHG commitments, NuVista is currently unable to predict the impact on its operations and financial condition at this time. It is possible that NuVista could face increases in operating and capital costs in order to comply with augmented greenhouse gas emissions legislation.

Further information regarding environmental and climate change regulations, current provincial royalty and incentive programs are contained in our Annual Information Form for the year ended December 31, 2010, filed on SEDAR, under the Industry Conditions section.

Update on financial reporting matters

Adoption of International Financial Reporting Standards ("IFRS") – NuVista has prepared its March 31, 2011 interim consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, NuVista prepared its financial statements in accordance with Previous GAAP. The adoption of IFRS has not had a material impact on NuVista's

operations, strategic decisions or cash flows. NuVista's IFRS accounting policies are provided in note 3 to the interim consolidated financial statements. In addition, note 17 to the interim consolidated financial statements presents reconciliations between NuVista's 2010 Previous GAAP results and the 2010 IFRS results. The following provides summary reconciliations of NuVista's 2010 Previous GAAP and IFRS results, along with a discussion of the significant IFRS accounting policy changes.

Summary of consolidated statement of financial position reconciliations:

(\$ millions)	As at January 1, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets	\$ 70	\$ (1)	\$ 69
Exploration and evaluation assets	-	128	128
Property, plant and equipment	1,402	(128)	1,274
Goodwill	83	(19)	64
Total assets	\$1,555	\$ (20)	\$1,535
Liabilities and shareholders' equity			
Current liabilities	\$ 55	\$ -	\$ 55
Long-term debt	385	-	385
Compensation liabilities	1	-	1
Asset retirement obligations	61	57	118
Deferred tax liabilities	134	(16)	118
Shareholders' equity	919	(61)	858
Total liabilities and shareholders' equity	\$1,555	\$ (20)	\$1,535

(\$ millions)	As at December 31, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets	\$ 56	\$ (1)	\$ 55
Exploration and evaluation assets	-	142	142
Property, plant and equipment	1,458	(155)	1,303
Goodwill	83	(49)	34
Total assets	\$1,597	\$ (63)	\$1,534
Liabilities and shareholders' equity			
Current liabilities	\$ 62	\$ -	\$ 62
Long-term debt	438	-	438
Commodity derivative liabilities	4	-	4
Compensation liabilities	1	-	1
Asset retirement obligations	63	65	128
Deferred tax liabilities	129	(21)	108
Shareholders' equity	900	(107)	793
Total liabilities and shareholders' equity	\$1,597	\$ (63)	\$1,534

Summary of net earnings (loss) reconciliation:

(\$ millions)	2010				
	Annual	Q4	Q3	Q2	Q1
Net earnings (loss), as reported under Previous GAAP	\$(14)	\$(14)	\$ (5)	\$(1)	\$ 6
Addition (deduction) to net earnings:					
Depreciation and depletion	(5)	5	(10)	(2)	2
Goodwill impairment	(29)	(8)	-	(1)	(20)
Exploration and evaluation	(17)	(8)	(6)	(2)	(1)
Gain on disposal of properties	5	5	-	-	-
Accretion	(4)	(1)	(1)	(1)	(1)
Deferred income taxes	5	-	4	1	-
Net earnings (loss), as reported under IFRS	\$(59)	\$(21)	\$(18)	\$(6)	\$(14)

Accounting policy changes

The following discussion explains the significant differences between NuVista's Previous GAAP accounting policies and those applied by NuVista under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

- Property, Plant and Equipment ("PP&E") – IFRS 1 provides the option to value PP&E assets in the Exploration and Evaluation ("E&E") phases and Development and Production ("D&P") phases at their deemed cost, defined as carrying amount assigned to these assets under Previous GAAP at the date of transition, January 1, 2010. This election is permissible for entities, such as NuVista, who currently follow the full cost accounting guideline, as established by the Canadian Institute of Charter Accountants ("CICA"), which accumulates all oil and gas assets into one cost centre. Under IFRS, NuVista's PP&E assets in the D&P phases is allocated to the area level and CGUs. The deemed cost of NuVista's PP&E assets has been allocated to the CGUs based on proved and probable reserve values.
- Re-classification of E&E expenditures from PP&E – Under IFRS, E&E expenditures are those costs for an area where technical feasibility and commercial viability has not yet been determined. E&E expenditures were deemed to be \$128.2 million as at January 1, 2010, representing the book value of undeveloped land that relates to exploration properties and other exploration related activities under Previous GAAP. This resulted in a reclassification of \$128.2 million from PP&E to E&E assets in the January 1, 2010 opening statement of financial position prepared under IFRS. At December 31, 2010, the E&E asset balance was \$141.9 million. E&E assets will not be depleted and must initially be assessed for impairment upon transition and subsequently when indicators suggest the possibility of impairment. Unsuccessful E&E costs and costs incurred prior to obtaining the legal right to explore are expensed to net earnings. Under Previous GAAP, exploration and evaluation costs were capitalized as property, plant and equipment in accordance with the CICA's full cost accounting guidelines where all costs directly associated with the acquisition of, the exploration for, and the development of oil and natural gas reserves were capitalized into one cost centre and depleted over the life of the reserves.
- Impairment of PP&E assets – Under IFRS, areas are aggregated into CGUs based on their ability to generate largely independent cash flows. If the carrying values of the CGU exceeds the recoverable amount, the CGU is written down with an impairment loss recognized in depletion and depreciation expense in net earnings. The recoverable amount is determined to be the higher of fair value less costs to sell and value in use. Impairments are reversed when there has been a subsequent increase in the recoverable amount. Impairment reversals are recognized in net earnings and the carrying amount of the CGUs is increased to its revised recoverable amount, net of any depletion that would have been charged as if no impairment loss had previously been recorded. Under Previous GAAP, an impairment was recognized if the carrying amount exceeded the sum of the undiscounted cash flows from proved reserves and the value of unproved

properties. If impairment is indicated, then the discounted cash flows are prepared to quantify the amount of impairment. Impairments recognized under Previous GAAP were not reversed. For the year ended December 31, 2010, NuVista recognized an impairment loss of \$23.8 million under IFRS. The carrying value exceeded the recoverable amount, determined to be fair value less costs to sell based on discounted future cash flows of proved and probable reserves using forecast prices and costs. Under Previous GAAP, these assets were included in one cost centre ceiling test, which was not impaired at December 31, 2010.

- Impairment of goodwill – Under IFRS, goodwill that arises from a business combination is allocated to the specific CGUs that are expected to benefit from the business combination. To test for impairment of goodwill, the carrying amount of the CGU including goodwill is compared to the recoverable amount of the CGU, which is determined to be the higher of fair value less cost to sell and value in use. The fair value less cost to sell was determined using discounted future cash flows of proved and probable reserves using forecast prices and costs. If the carrying value exceeds the recoverable amount, an impairment loss is recognized in net earnings. Impairments recognized on goodwill are not reversed. Under Previous GAAP, goodwill impairment was calculated at the operating segment level (being the company level). Goodwill was not impaired under the Previous GAAP at December 31, 2010. At January 1, 2010 and for the year ended December 31, 2010, NuVista recognized goodwill impairment loss of \$19.4 million and \$29.8 million respectively under IFRS.
- Depletion and depreciation expense – Under IFRS, development and production costs are depleted using the unit-of-production method calculated at the area level. The IFRS 1 exemption permitted NuVista to allocate development and production costs to the area level using proved and probable reserve values as at January 1, 2010. Depleting at an area level under IFRS resulted in an \$18.7 million decrease to depletion and depreciation expense, for the year ended December 31, 2010.
- Asset retirement obligations – At transition to IFRS, as part of electing the IFRS 1 exemption, NuVista was required to remeasure its asset retirement obligation and recognize the difference in retained earnings. This resulted in a \$57.0 million increase to the asset retirement obligation at January 1, 2010. Subsequent adjustments to the obligation are made to property, plant and equipment. Under IFRS, NuVista is required to revalue its entire asset retirement obligation at the end of each reporting period using a risk free rate. Under Previous GAAP, the obligation is initially discounted at a credit adjusted risk free rate. Once recorded, the asset retirement obligations were not adjusted for future changes in discount rate. As at December 31, 2010, NuVista's asset retirement obligation was \$128.3 million under IFRS. An average risk free discount rate of 3.52% was used at December 31, 2010 based on the Government of Canada 30 year bond yield.
- Deferred income taxes – Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and Previous GAAP. For the year ended December 31, 2010, the application of the IFRS adjustments discussed above resulted in \$5.6 million reduction in the deferred income tax expense with a corresponding decrease to the deferred income tax liability.

Internal control 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 annual filings, interim 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 include controls and procedures designed to ensure that information required to be disclosed by NuVista in its annual filings, interim filings or other reports filed or submitted under securities legislation 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 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 consolidated 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 consolidated financial statements or interim consolidated financial statements. NuVista has designed its internal controls over financial reporting based on the framework in "Internal Control Over Financial Reporting – Guidance for Smaller Public Companies" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). During the quarter ended March 31, 2011, there have been no changes to NuVista's internal control over financial reporting that have materially or are reasonably likely to materially affect the internal control over financial reporting.

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;
- Reserves risk with respect to the quantity and quality of recoverable reserves;
- Commodity risk as crude oil and natural gas prices 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 and environmental protection relating to the oil and natural gas industry; and
- Labour risks 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 bank 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, 2010.

OUTLOOK

NuVista's Board of Directors has approved a 2011 base capital budget of \$160 million. During 2011, we expect to drill approximately 60 gross wells with approximately 20 wells drilled in the first half of 2011 and 40 wells drilled in the second half. Capital spending of \$20 million has been allocated to the second quarter, however, actual spending may be lower depending on the timing of access to leases after spring break-up. For the second half of 2011, capital spending is budgeted at \$100 million with the ability to increase this amount, while still limiting spending to cash flow, if we experience higher commodity prices.

Based on a 2011 constrained capital budget of \$160 million, facility outages experienced during the first half of 2011 and the disposition of properties in the second quarter, production for 2011 is forecast to average between 25,000 Boe/d and 26,000 Boe/d. First and second quarter third-party facility outages have impacted annual production volumes by approximately 250 Boe/d and our disposition of Pembina properties will impact annual production by approximately 200 Boe/d. Production volumes are expected to be lower in the first half of 2011 compared to the same period in 2010 as a result of lower spending in the fourth quarter of 2010 and the first half of 2011, unplanned and planned third-party facility outages and our shift to higher netback oil and liquids-rich natural gas production that add greater value but have lower average production additions on a Boe basis. Production volumes are expected to increase in the second half of 2011 even though \$35 million of the capital program is being allocated to advance the Wapiti Montney play where incremental production is not expected until late 2011 or early 2012. We are forecasting NuVista's oil and liquids weighting to increase which, based on current commodity prices, should have a positive impact on our netbacks and cash flow. Based on NuVista's planned capital program, its oil and liquids weighting is expected to increase to approximately 35% of production at the end of 2011 compared to our weighting of 28% in the fourth quarter of 2010. 2011 funds from operations are forecast to be approximately \$160 million based on the estimated production rate and current pricing assumptions of \$3.90/Mcf for AECO natural gas, US\$95/Bbl for WTI crude oil, a foreign exchange rate of 1.03, and including price risk management contracts currently in place. NuVista will continue to prudently manage its financial flexibility and forecasts a year end debt to funds from operation ratio of less than 2.0x.

For 2011, the natural gas supply/demand fundamentals continue to place downward pressure on natural gas prices and, as a result, we plan to carefully manage our business plan and financial flexibility to endure an extended period of weak prices. With a new leader in place, a talented and highly motivated workforce, improved financial flexibility and a business strategy focused on discipline, execution and profitability, we believe that our prudent strategy will result in superior performance over the long term. We would like to express our appreciation to our core shareholders for their support and the NuVista team for their ongoing commitment over the last few months as we made changes to our leadership and business model. We look forward to updating you on the progress of our 2011 business plan and longer term plans for shareholder value creation throughout the remainder of the year.

NUVISTA ENERGY LTD.

Consolidated Statements of Financial Position
(unaudited)

(\$Cdn thousands)	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable and prepaids	50,344	55,144	69,238
Assets held for sale (note 6)	10,678	-	-
	61,022	55,144	69,238
Exploration and evaluation assets (note 5)	142,516	141,852	128,175
Property, plant and equipment (note 6)	1,294,731	1,302,249	1,273,278
Goodwill (note 7)	34,579	34,579	64,331
	1,471,826	1,478,680	1,465,784
Total assets	\$1,532,848	\$1,533,824	\$1,535,022
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	\$ 49,011	\$ 56,183	\$ 52,358
Dividends payable	-	4,438	-
Commodity derivative liabilities (note 14)	6,736	1,256	2,593
	55,747	61,877	54,951
Long-term debt (note 8)	356,356	438,566	384,623
Compensation liabilities (note 12)	792	619	516
Commodity derivative liabilities (note 14)	3,428	4,084	-
Asset retirement obligations (note 9)	128,154	128,259	118,812
Deferred tax liabilities	103,892	107,267	117,940
	592,622	678,795	621,891
Shareholders' equity			
Share capital (note 10)	789,094	689,757	685,269
Contributed surplus	28,132	26,552	18,690
Retained earnings	67,253	76,843	154,221
	884,479	793,152	858,180
Total liabilities and shareholders' equity	\$1,532,848	\$1,533,824	\$1,535,022

Subsequent event (note 8)

See accompanying notes to interim consolidated financial statements.

NUVISTA ENERGY LTD.**Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)**

(unaudited)

(\$Cdn thousands, except per share amounts)	Three months ended March 31,	
	2011	2010
Revenues		
Oil and natural gas	\$ 88,237	\$105,519
Royalties	(12,418)	(16,814)
	75,819	88,705
Realized gain (loss) on commodity derivatives (note 14)	(2,958)	(1,719)
Unrealized gain (loss) on commodity derivatives (note 14)	(4,825)	(334)
	68,036	86,652
Expenses		
Operating	27,003	22,706
Transportation	1,942	2,329
General and administrative	4,910	4,598
Share-based compensation (note 12)	1,605	1,786
Depletion and depreciation (note 6)	38,698	40,763
Goodwill impairments (note 7)	-	20,513
Exploration and evaluation (note 5)	1,512	527
Loss (gain) on disposal of properties (note 6)	(1,480)	-
Interest	5,198	3,946
Accretion (note 9)	1,129	1,158
	80,517	98,326
Earnings (loss) before income and other taxes	(12,481)	(11,674)
Deferred income tax expense (reduction)	(2,891)	2,405
Net earnings (loss) and comprehensive income (loss)	\$ (9,590)	\$(14,079)
Net earnings (loss) per share (note 11)		
Basic	\$ (0.10)	\$ (0.16)
Diluted	\$ (0.10)	\$ (0.16)

See accompanying notes to interim consolidated financial statements.

NUVISTA ENERGY LTD.**Consolidated Statements of Changes in Shareholders' Equity**
(unaudited)

(\$Cdn thousands)	Three months ended March 31,	
	2011	2010
Share capital (note 10)		
Balance, beginning of period	\$689,757	\$685,269
Issued for cash	99,750	-
Dividend Re-investment Plan	771	-
Exercise of stock-options	175	1,492
Share-based compensation	62	427
Share issue costs, net of deferred tax benefit of \$0.5 million (2010 - \$nil)	(1,421)	-
Balance, end of period	\$789,094	\$687,188
Contributed surplus		
Balance, beginning of period	\$ 26,552	\$ 18,690
Share-based compensation	1,642	1,981
Exercise of stock options	(62)	(427)
Balance, end of period	\$ 28,132	\$ 20,244
Retained earnings		
Balance, beginning of period	\$ 76,843	\$154,221
Net earnings (loss)	(9,590)	(14,079)
Dividends	-	(4,426)
Balance, end of period	\$ 67,253	\$135,716
Total shareholders' equity	\$884,479	\$843,148

See accompanying notes to interim consolidated financial statements.

NUVISTA ENERGY LTD.

Consolidated Statements of Cash Flows
(unaudited)

(\$Cdn thousands)	Three months ended March 31,	
	2011	2010
Cash provided by (used in)		
Operating activities		
Net earnings (loss)	\$ (9,590)	\$(14,079)
Items not requiring cash from operations:		
Depletion and depreciation	38,698	40,763
Goodwill impairments	-	20,513
Exploration and evaluation	1,512	527
Loss (gain) on property dispositions	(1,480)	-
Share-based compensation	1,096	1,486
Unrealized (gain) loss on commodity derivatives	4,825	334
Deferred income tax expense (reduction)	(2,891)	2,405
Accretion	1,129	1,158
Asset retirement expenditures	(3,398)	(5,271)
Net change in non-cash working capital	(6,307)	8,078
	23,594	55,914
Financing activities		
Issue of share capital, net of share issue costs	98,020	1,492
Increase in long-term debt	-	372
Repayment of long-term debt	(82,210)	-
Dividends paid	(3,667)	-
	12,143	1,864
Investing activities		
Property, plant and equipment expenditures	(36,491)	(68,300)
Property acquisitions	(62)	-
Exploration and evaluation expenditures	(3,223)	(7,518)
Net change in non-cash working capital	4,039	18,040
	(35,737)	(57,778)
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	\$ -	\$ -
Cash interest paid	\$ 5,860	\$ 4,267

See accompanying notes to interim consolidated financial statements.

NUVISTA ENERGY LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

For the three months ended March 31, 2011 with comparative figures for 2010. All tabular amounts are in thousands of Canadian dollars, except share and per share amounts, unless otherwise stated.

1. Corporate information

NuVista Energy Ltd. ("NuVista" or the "Company") is a publicly traded company incorporated under the laws of Alberta. The Company is an oil and natural gas company actively engaged in the exploration for and the development and production of oil and natural gas reserves.

The address of the Company's registered office is 3500, 700 – 2nd Street S.W., Calgary, Alberta, Canada, T2P 2W2.

2. Basis of preparation

(a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These are the Company's first International Financial Reporting Standards ("IFRS") interim consolidated financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1, "First-time Adoption of International Financial Reporting Standards" has been applied. These interim consolidated financial statements do not include all of the information required for full annual financial statements. Significant accounting policies under IFRS are presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The impact of the new standards, including reconciliations, present the change from previously reported Canadian generally accepted accounting principles ("Previous GAAP") to IFRS as at January 1, 2010, as at and for the three months ended March 31, 2010 and as at and for the year ended December 31, 2010 is presented in note 17.

These interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 25, 2011.

(b) Basis of measurement

These interim consolidated financial statements have been prepared on the historical cost basis, except for compensation liabilities and derivative financial instruments that have been measured at fair value and held for trading financial assets are measured at fair value with the changes in fair value recorded in net earnings.

(c) Functional and presentation currency

These interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of the interim consolidated 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. Significant estimates and judgments made by management in the preparation of these interim consolidated financial statements

are outlined below.

(i) Reserve estimates

Oil and natural gas reserves are used in the calculation of depletion, depreciation and impairment charges and reversals. Reserve estimates are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Company expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels and may be affected by changes in commodity prices.

(ii) Asset retirement obligations

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

(iii) Fair value of financial instruments

The fair value of financial instruments, that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of the reporting period. The Company uses directly and indirectly observable inputs in measuring the value of the financial instruments that are not traded in active markets, including quoted commodity prices and volatility, interest rate yield curves and foreign exchange rates.

(iv) Share-based compensation

Compensation expense recognized for share-based compensation plans are subject to estimation of what the ultimate payout will be using the Black-Scholes option pricing model which is based on significant assumptions such as expected volatility and future forfeiture rates. At each period end, restricted stock units outstanding are remeasured for changes in the fair value of the liability.

(v) Cash generating units

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

(vi) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements and have been applied consistently by the Company and its subsidiaries.

(a) Principles of consolidation

The interim consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries and proportionate share of its partnerships.

Intercompany balances and transactions between the Company and its subsidiaries are eliminated on consolidation.

(b) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(c) Joint interest

A portion of exploration, development and production activities are conducted jointly with others under contractual arrangement and, accordingly, the Company only reflects its proportionate interest in such activities.

(d) Exploration and evaluation assets

Exploration and evaluation ("E&E") expenditures are initially capitalized within "Exploration and evaluation assets". E&E costs may include the costs of acquiring licenses, technical services and studies, seismic acquisition, exploration drilling and testing costs and directly attributable general and administrative costs. Costs incurred prior to having obtained the legal right to explore an area are charged to net earnings as exploration and evaluation expenditures in the period in which they are incurred.

E&E assets are not depreciated. These costs are accumulated in cost centers by well or areas and are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Company defines commercial reserves as the existence of proved and probable reserves which are determined to be technically feasible and commercially viable to extract.

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

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

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

(e) Property, plant and equipment

Development and production assets

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

An impairment test is performed whenever events and circumstances arising during the development and production phase indicate that the carrying value of a development and production asset may exceed its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, defined as the greater of fair value less costs to sell and its value in use. Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined by using discounted future net cash flows of proved and probable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset. If any indications of impairment exists, the Company performs an impairment test related to the assets. Individual assets or areas are grouped for impairment assessment purposes into cash generating units ("CGUs"), which are the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

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

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

(f) Depletion and depreciation

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

Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) and depreciated over their useful lives. Costs associated with workovers are depreciated over

two years and plant turnarounds and overhauls are depreciated over five years. The assets' useful lives and residual values are assessed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

(g) Asset purchases and disposals

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

Proceeds on disposal are applied to the specific exploration and evaluation asset or development and production assets disposed of and any surplus is recorded as a gain on disposal in net earnings.

(h) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net earnings in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the consolidated statement of financial position. Assets held for sale are not depleted or depreciated.

(i) Business combinations

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

(j) Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired in a business combination. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the CGU's that are expected to benefit from the synergies of the combination. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. The recoverable amounts are determined based on the greater of its fair value less costs to sell or value in use. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the development and production assets on a pro rata basis. Any impairment loss on goodwill is not reversed.

(k) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the

amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Asset retirement obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. An obligation is recognized for the estimated cost of abandonment and site restoration, by discounting expected future cash flows required to settle the obligation using a risk free rate, with a corresponding amount capitalized as asset retirement costs in property, plant and equipment. These asset retirement costs are subsequently depleted on a unit-of-production basis over the life of the proved and probable reserves. The obligation is adjusted each reporting period to reflect the passage of time and changes to the estimated future cash flows underlying the obligation. The increase in the obligation due to the passage of time is recognized as accretion expense and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligations are charged against the liability.

(l) Revenue recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party.

(m) Financial instruments

(i) Non-derivative financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost" as defined by the accounting standard. Financial assets and financial liabilities at "fair value through profit or loss" are either classified as "held for trading" or "designated at fair value through profit or loss" and are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as "loans and receivables", "held-to-maturity", and "financial liabilities measured at amortized cost" are measured at amortized cost using the effective interest method of amortization. Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income.

Financial assets, excluding derivative instruments, are classified as "loans and receivables". Financial liabilities, excluding derivative instruments, are classified as "financial liabilities measured at amortized cost". All derivative instruments are classified as "held for trading".

(ii) Derivative financial instruments

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

The Company has accounted for its forward physical delivery sales contracts and power contracts, which were entered into and continue to be held for the purpose of receipt or

delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Realized gains or losses from natural gas and oil commodity physical sales contracts are recognized in oil and natural gas revenue as the contracts are settled. Realized gains or losses from power commodity contracts are recognized in operating costs as the related power contracts are settled.

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

(n) Share capital

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

(o) Share-based compensation

The Company has two types of incentive plans: stock options and restricted stock units ("RSU") that may be granted to officers, directors and employees.

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

The Company's RSU plan entitles participants to receive cash based on the Company's share price at the time of vesting. A liability for expected cash payments is accrued over the vesting period based on the market price of the Company's common shares. Upon vesting, a cash payment is made to the participants and the outstanding compensation liability is reduced by the payment amount. Compensation expense is recorded in net earnings as share-based compensation.

(p) Income taxes

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

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

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

probable that the related tax benefit will be realized.

(q) Earnings per share

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

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(r) Cash and cash equivalents

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

(s) Comparative figures

Certain prior period amounts have been reclassified to conform with current year's presentation.

4. Future accounting changes

In November 2009, the International Accounting Standards Board ("IASB") published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through profit or loss. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of profit or loss and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. The adoption of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

5. Exploration and evaluation assets

	March 31, 2011	December 31, 2010
Balance, beginning of period	\$141,852	\$128,175
Additions	3,223	53,740
Acquisitions	754	-
Dispositions	-	(180)
Transfers to property, plant and equipment	(1,801)	(22,985)
Expiries (exploration and evaluation expense)	(1,512)	(16,898)
Balance, end of period	\$142,516	\$141,852

6. Property, plant and equipment

	March 31, 2011	December 31, 2010
Cost		
Balance, beginning of period	\$1,487,032	\$1,273,278
Additions	36,491	166,636
Acquisitions	62	18,510
Disposals	(6,756)	-
Change in asset retirement obligations (note 9)	2,163	3,951
Capitalized share-based compensation	616	1,672
Transfers from exploration and evaluation assets	1,801	22,985
Transfers to assets held for sale	(11,720)	-
Balance, end of period	\$1,509,689	\$1,487,032

	March 31, 2011	December 31, 2010
Accumulated depletion and depreciation		
Balance, beginning of period	\$184,783	\$ -
Depletion and depreciation expense	38,698	160,994
Dispositions	(7,481)	-
Impairments	-	28,379
Impairment reversals	-	(4,590)
Transfers to assets held for sale	(1,042)	-
Balance, end of period	\$214,958	\$184,783

	March 31, 2011	December 31, 2010
Net book value		
Balance, beginning of period	\$1,302,249	\$1,273,278
Balance, end of period	\$1,294,731	\$1,302,249

In March 2011, the Company entered into a sales agreement to sell minor properties in the Pembina area in Alberta for cash proceeds of approximately \$36.5 million. These properties have been classified as assets held for sale on the statement of financial position. Subsequent to March 31, 2011, the Company closed this disposition.

In February 2011, the Company and Bonavista Energy Corporation entered into a series of transactions that resulted in Bonavista no longer having joint ownership in a partnership. These transactions resulted in a gain of \$1.5 million.

7. Goodwill

	March 31, 2011	December 31, 2010
Balance, beginning of period	\$34,579	\$64,331
Impairments	-	(29,752)
Balance, end of period	\$34,579	\$34,579

8. Long-term debt

As at March 31, 2011 the Company had a \$510 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 stamping fee. The credit facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a determination of the maximum borrowing amount occurs semi-annually on or before October 31. In May 2011, the Company completed the annual review of its borrowing base with its lenders and the lenders have approved a request for a revolving extendible credit facility with maximum borrowing amount of \$470 million. During the term period, no principal payments would be required until April 29, 2013. As such, this credit facility is classified as long-term. As at March 31, 2011, the Company had drawn \$356.4 million (2010 - \$438.6 million).

9. Asset retirement obligations

The Company's asset retirement obligations are based on estimated costs to reclaim and abandon ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. At March 31, 2011, the estimated total undiscounted amount of cash flows required to settle the Company's asset retirement obligations is \$242.2 million (2010 - \$232.4 million), which is estimated to be incurred over the next 51 years. An average risk-free rate of 3.75% (2010 - 3.52%) and an inflation rate of 2% (2010 - 2%) were used to calculate the net present value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	March 31, 2011	December 31, 2010
Balance, beginning of period	\$128,259	\$118,812
Accretion expense	1,129	4,639
Liabilities incurred	4,629	7,069
Liabilities acquired	2,498	1,166
Change in estimates	(4,963)	4,313
Liabilities settled	(3,398)	(7,740)
Balance, end of period	\$128,154	\$128,259

10. Share capital

At March 31, 2011, the Company was authorized to issue an unlimited number of voting Common Shares and 1,200,000 non-voting Class B Performance Shares.

Common Shares

	March 31, 2011		December 31, 2010	
	Number	Amount	Number	Amount
Balance, beginning of period	88,759,802	\$689,757	88,360,757	\$685,269
Issued for cash	10,500,000	99,750	-	-
Dividend re-investment plan ("DRIP")	89,945	771	158,121	1,618
Exercise of stock options	22,108	175	240,924	2,233
Share-based compensation	-	62	-	678
Share issue costs, net of deferred tax benefit of \$0.5 million (2010 - \$0.1 million)	-	(1,421)	-	(41)
Balance, end of period	99,371,855	\$789,094	88,759,802	\$689,757

In February 2011, the Company entered into private placement agreements and a public offering agreement with a syndicate of underwriters for the issuance of an aggregate of 10,500,000 common shares for aggregate gross proceeds of \$99.8 million (the "Offerings"). The Offerings closed on March 8, 2011.

11. Earnings per share

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

(in thousands of shares)	March 31, 2011	December 31, 2010
Basic weighted average common shares outstanding	91,646	88,583
Diluted weighted average common shares outstanding	91,646	88,583

Basic earnings per share amounts are calculated by dividing the net earnings for the period by the weighted average number of shares outstanding during the period. For the diluted earnings per share calculation, the weighted average number of shares outstanding during the period is adjusted for the number of shares that are potentially issuable in connection with employee share-based payment plans using the treasury stock method.

Excluded from diluted earnings per share is the effect of 1,944,579 options (2010 – 6,590,485 options) as their effect is anti-dilutive.

12. Share-based compensation

Stock options

The Company has established a stock option plan whereby officers, directors and employees may be granted options to purchase common shares. Options granted prior to December 2008 vest at the rate of 25% per year and expire two years from the vesting date. The terms of future stock option grants were amended in December 2008. Pursuant to the amendment, options subsequently granted will vest at the rate of 1/3 per year and expire 2.5 years after the vesting date. The total stock options outstanding plus the Class B Performance Shares cannot exceed 10% of the outstanding common shares. The summary of stock option transactions is as follows:

(in thousands of options)	March 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	7,515,098	\$12.29	6,574,823	\$13.16
Granted	82,630	9.23	2,449,840	10.46
Exercised	(22,108)	7.94	(240,924)	9.27
Forfeited	(282,124)	12.28	(705,391)	13.36
Expired	(329,089)	14.98	(563,250)	14.42
Balance, end of period	6,964,407	\$12.14	7,515,098	\$12.29

The following table summarizes stock options outstanding and exercisable under the plan at March 31, 2011:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$5.50 to \$9.99	1,360,139	3.3	\$ 8.47	360,217	\$ 7.84
\$10.00 to \$14.99	4,282,272	2.6	11.97	1,691,531	12.89
\$15.00 to \$19.56	1,321,996	1.7	16.46	833,100	16.35
\$5.50 to \$19.56	6,964,407	2.6	\$12.14	2,884,848	\$13.26

The Company uses the fair value based method for the determination of the share-based compensation costs. The fair value of each option granted during the period was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions and results used to fair value the awards are as follows:

	March 31, 2011	December 31, 2010
Risk-free interest rate (%)	2.2	2.3
Expected volatility (%)	40	40
Expected life (years)	4.0	4.4
Forfeiture rate (%)	10	10
Dividend (\$ per share)	-	0.20
Fair value at grant date (\$ per option)	3.15	3.24

Share-based compensation cost of \$1.1 million (March 31, 2010 - \$0.5 million) was recorded in net earnings and \$0.5 million (March 31, 2010 - \$1.5 million) was capitalized.

Restricted stock units

In January 2008, the Board of Directors approved a Restricted Stock Unit (“RSU”) Incentive Plan for employees and officers. Each RSU entitles participants to receive cash equal to the market value of the equivalent number of shares of the Company. Until November 2009, the RSUs became payable as they vest over three years. In November 2009, the Board of Directors amended the Plan. All RSUs granted subsequent to November 2009 vest two years after the date the RSUs are issued.

For the period ended March 31, 2011, the Company recorded compensation expense related to RSU’s of \$0.5 million (March 31, 2010 - \$0.3 million) and capitalized \$0.1 million (March 31, 2010 - \$0.4 million) with a corresponding offset recorded in compensation liabilities. The compensation expense was calculated using the fair value method based on the trading price of the Company’s shares at the end of each reporting period. The following table summarizes the change in RSUs:

	March 31, 2011	December 31, 2010
	Number	Number
Balance, beginning of period	452,931	414,791
Settled	(26,281)	(210,704)
Granted	3,600	270,505
Forfeited	(19,331)	(21,661)
Balance, end of period	410,919	452,931

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

	March 31, 2011	December 31, 2010
Balance, beginning of period	\$1,532	\$ 2,651
Change in accrued compensation liabilities	303	(1,119)
Balance, end of period	\$1,835	\$ 1,532
Compensation liabilities – current (included in accounts payable and accrued liabilities)	\$1,043	\$ 913
Compensation liabilities – long term	\$ 792	\$ 619

For the period ended March 31, 2011, cash payments of \$0.3 million (December 31, 2010 – \$2.3 million) were made relating to the RSU Incentive Plan.

13. Capital risk management

The Company's objectives when managing capital are: (i) to deploy capital to provide an appropriate return on investment to its shareholders; (ii) to maintain financial flexibility in order to preserve its ability to meet financial obligations; and (iii) to maintain a capital structure that provides financial flexibility to execute on strategic opportunities throughout the business cycle.

The Company's strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include share capital, long-term debt, and working capital. In order to maintain or adjust its capital structure, the Company may issue new shares, raise debt, refinance existing debt and adjust capital spending.

A key measure the Company utilizes in evaluating its capital structure is the ratio of net debt to trailing 12 months ("annual") funds from operations. The Company's strategy is to maintain a net debt to annual funds from operations ratio of less than 2.0:1. At March 31, 2011, the Company had a ratio of net debt to annual funds from operations of 2.4:1 (2010 – 2.6:1).

	March 31, 2011	December 31, 2010
Long-term debt	\$356,356	\$438,566
Accounts payable and accrued liabilities	49,011	56,183
Dividends payable	-	4,438
Add (deduct):		
Cash and cash equivalents	-	-
Accounts receivable and prepaids	(50,344)	(55,144)
Net debt obligations	\$355,023	\$444,043
Annual funds from operations	\$150,122	\$169,957
Net debt to annual funds from operations	2.4	2.6

In order to maintain a flexible capital structure, during the quarter the Company issued 10,500,000 common shares for gross proceeds of \$99.8 million, terminated its dividend payments and adjusted its capital program resulting in capital expenditures being lower than prior years to ensure that 2011 first half capital expenditures will be lower than forecast cash flow.

The Company's share capital is not subject to external restrictions, however the credit facility borrowing commitment is based on the lender's semi-annual review of the Company's oil and natural gas reserves. The Company is subject to various covenants under its credit facility. Compliance with these covenants is monitored on a regular basis and as at March 31, 2011, the Company was in compliance with all covenants. There were no changes to the Company's approach to capital management during the period.

14. Risk management activities

(a) Financial instruments

The Company's financial instruments recognized on the consolidated statement of financial position consists of cash and cash equivalents, accounts receivable, commodity derivative contracts, dividend payable, accounts payable and accrued liabilities, compensation liability and long-term debt. The estimated fair value of long-term debt has been determined based on market information where available. Unless otherwise noted, carrying values reflect the current fair value of the Company's financial instruments due to their short-term maturities. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate methodologies, through comparisons to similar instruments, or third party quotes.

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

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

The Company's cash and cash equivalents are classified as Level 1 and commodity derivative contracts as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

(b) Risk management contracts

As at March 31, 2011, the Company has entered into the following crude oil put option contracts:

Volume	Average Strike Price (Cdn\$/Bbl)	Option Premium (Cdn\$/Bbl)	Term
3,000 Bbls/d	Cdn \$88.03 – WTI	\$9.29 ⁽¹⁾	Apr 1, 2011 – Dec 31, 2011
2,000 Bbls/d	Cdn \$88.55 – WTI	\$9.43 ⁽¹⁾	Jan 1, 2012 – Mar 31, 2012

⁽¹⁾ The premiums are incurred monthly over the term of the contract and will be offset against revenues.

As at March 31, 2011, the Company has entered into financial derivative crude oil fixed price contract as follows:

Volume	Fixed price (Cdn\$/Bbl)	Term
1,000 Bbls/d	\$97.50 – WTI	Apr 1, 2011 – Jun 30, 2012

As at March 31, 2011, the Company has entered into NYMEX natural gas basis differential contracts as follows:

Volume	Differential (US\$/MMbtu)	Term
40,000 MMbtu/d	(\$0.46)	Apr 1, 2011 – Oct 31, 2011
30,000 MMbtu/d	(\$0.51)	Nov 1, 2011 – Mar 31, 2012

Subsequent to March 31, 2011, the following NYMEX natural gas basis differential contracts have been entered into:

Volume	Differential (US\$/Mmbtu)	Term
20,000 MMbtu/d	\$(0.59)	Apr 1, 2012 – Oct 31, 2012

The following is a reconciliation of movement in the fair value of unrealized commodity risk management contracts:

	March 31, 2011	December 31, 2010
Fair value of contracts, beginning of period	\$ (5,340)	\$(2,593)
Change in the fair value of contracts in the period	(7,782)	(7,986)
Fair value of contracts realized in the period	2,958	5,239
Fair value of contracts, end of period	\$(10,164)	\$(5,340)
Commodities derivative liabilities - current	\$ (6,736)	\$(1,256)
Commodities derivative liabilities - long-term	\$ (3,428)	\$(4,084)

Physical sale contracts

As at March 31, 2011, the Company has entered into a fixed price contract for the purchase of electricity as follows:

Volume	Price (Cdn\$/Mwh)	Term
4.0 Mwh	\$65.64	Apr 1, 2011 – Dec 31, 2013

(c) Financial risk management

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

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

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

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to its accounts receivables. Most of the Company's accounts receivable arise from transactions with joint venture partners and oil and natural gas sales with oil and natural gas marketers. The Company mitigates its credit risk by entering into contracts with established

counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis.

As at March 31, 2011, the accounts receivable balance was \$41.1 million of which \$1.0 million of accounts receivable were past due. The Company considers all amounts greater than 90 days past due. These past due accounts receivable are considered to be collectible. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure risk to the Company. The Company did not have accounts receivable balances owing from counterparties that constituted more than 10% of the total revenue during the period ended March 31, 2011.

(ii) Liquidity risk

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

The timing of cash flows relating to financial liabilities as at March 31, 2011 is as follows:

	Total	1 year	2 to 3 years	4 to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	\$ 49,011	\$49,011	\$ -	\$ -	\$ -
Long-term debt	356,356	-	356,356	-	-
Compensation liabilities	792	-	792	-	-
Total financial liabilities	\$406,159	\$49,011	\$357,148	\$ -	\$ -

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity price risk, currency risk, and interest rate risk. The Company is engaged in oil and gas exploration, development and production activities in Canada and as a result has significant exposure to commodity price risk. The Company has adopted a disciplined commodity price risk management program as part of its overall financial management strategy. The Board of Directors has a commodity price risk management limit of up to a maximum of 60% of forecast production volumes, net of royalties. The company considers all of these transactions to be economic hedges but does not designate them as hedges for accounting purposes.

(a) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in commodity prices. The Company manages the risks associated with changes in commodity prices through the use of various financial derivative and physical delivery sales contracts. The financial derivative contracts are considered financial instruments but the physical delivery sales contracts are excluded from the definition of financial instruments as discussed in note 3(m)(ii). The Company uses financial instruments and physical delivery sales contracts to manage oil and natural gas commodity price risk.

(b) Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rate between the Canadian and United States dollars.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. The Company had no interest rate swap or financial contracts in place as at or during the period ended March 31, 2011.

(d) Financial instrument sensitivities

The following table summarizes the annualized sensitivities of the Company's net earnings to changes in the fair value of financial instruments outstanding at March 31, 2011, resulting in changes from the specified variable, with all other variables held constant. Changes in the fair value generally cannot be extrapolated because the relationship of a change in an assumption to the change in fair value may not be linear.

Impact on net earnings	March 31, 2011
Commodity price risk	
Increase in Cdn\$ WTI – oil \$10/Bbl	\$ 5,820
Decrease in Cdn\$ WTI – oil \$10/Bbl	(4,905)
Interest rate risk	
Increase in interest rate – 1%	3,082
Decrease in interest rate – 1%	\$(3,082)

15. Related party transactions

NuVista and Bonavista Energy Corporation. ("Bonavista") are considered related as two directors of NuVista, one of whom is NuVista's chairman, are directors and officers of Bonavista and another director of NuVista is also an officer of Bonavista.

Effective February 2011, the Company and Bonavista entered into a series of transactions that resulted in Bonavista no longer having joint ownership in a partnership.

16. Commitments and contingencies

The following is a summary of the Company's contractual obligations and commitments as at March 31, 2011:

	Total	2011	2012	2013	2014	2015	There- after
Transportation	\$ 11,472	\$2,960	\$ 2,813	\$2,493	\$2,060	\$1,002	\$ 144
Office lease	9,930	1,559	1,940	1,306	1,306	1,316	2,503
Purchase commitments	6,437	3,547	2,890	-	-	-	-
Physical power contract	6,325	1,725	2,300	2,300	-	-	-
Long-term debt ⁽¹⁾	356,356	-	356,356	-	-	-	-
Total commitments	\$390,520	\$9,791	\$366,299	\$6,099	\$3,366	\$2,318	\$2,647

⁽¹⁾ Based on the new credit facility agreement entered into in May 2011, no principal payments would be required until April 29, 2013.

17. Explanation of transition to IFRS

For all periods up to and including the year ended December 31, 2010, the Company prepared its interim consolidated financial statements in accordance with Previous GAAP. These interim consolidated financial statements, for the three months ended March 31, 2011, are the first the Company is required to prepare in accordance with IFRS.

Accordingly, the Company has prepared interim consolidated financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011 and the significant accounting policies adopted are shown in note 3. In preparing these interim consolidated financial statements, the Company has started from an opening statement of financial position date of January 1, 2010, the Company's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the adjustments made by the Company in restating its Previous GAAP consolidated statement of financial position as at January 1, 2010 and its Previous GAAP consolidated financial statements for the year ended December 31, 2010.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards" allows first-time adopters certain exemptions from retrospective application of certain IFRS. The Company has applied the following exemptions:

(i) Oil and gas deemed cost exemption for full cost companies

Certain oil and gas assets in property, plant and equipment on the consolidated statement of financial position were recognized and measured on a full cost basis in accordance with Previous GAAP using the IFRS 1 exemption. The Company has elected to measure its properties at the amount determined under Previous GAAP as at January 1, 2010. Costs included in the full cost pool on January 1, 2010 were allocated on a pro-rata basis to the underlying assets on the basis of proved and probable reserve values as at January 1, 2010. Exploration and evaluation assets were valued at the amount that was recorded under Previous GAAP. Associated asset retirement costs were also measured at their carrying value under Previous GAAP while all asset retirement obligations were measured using an average risk free rate, with a corresponding adjustment to opening retained earnings.

(ii) Business combination

A first-time adopter may elect not to apply IFRS 3, "Business Combinations" retrospectively to past business combinations before the date of transition to IFRS. The Company has elected to take this exemption and as a result, IFRS 3 has not been applied to business combinations that occurred before January 1, 2010, the Company's transition date.

(iii) Share-based payments

IFRS 2, "Share-based Payment" has not been applied to equity instruments related to share-based compensation arrangements that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010. For cash-settled share-based payment transactions, the Company has not applied IFRS 2 to liabilities that were settled before January 1, 2010.

(iv) Borrowing costs

Contained within IFRS 1 is an exemption to not apply IAS 23, "Borrowing Costs" retrospectively, but to allow first-time adopters to elect to capitalize borrowing costs relating to all qualifying assets on or after a designated effective date. The Company has designated the effective date to be January 1, 2010, the date of transition to IFRS. There was no impact pursuant to the application of this exemption.

Reconciliation of equity from Previous GAAP to IFRS at the date of transition to IFRS – January 1, 2010:

(\$Cdn thousands)	Previous GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable and prepaids	69,238	-	69,238
Deferred tax assets (i)	1,336	(1,336)	-
	70,574	(1,336)	69,238
Exploration and evaluation assets (a)	-	128,175	128,175
Property, plant and equipment (a)	1,401,453	(128,175)	1,273,278
Goodwill (e)	83,716	(19,385)	64,331
	1,485,169	(19,385)	1,465,784
Total assets	\$1,555,743	\$(20,721)	\$1,535,022
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities (c)	\$ 52,362	\$ (4)	\$ 52,358
Commodity derivative liabilities	2,593	-	2,593
	54,955	(4)	54,951
Long-term debt	384,623	-	384,623
Compensation liabilities (c)	604	(88)	516
Commodity derivative liabilities	-	-	-
Asset retirement obligations (b)	61,816	56,996	118,812
Deferred tax liabilities (a,b,c,i)	134,052	(16,112)	117,940
	581,095	40,796	621,891
Shareholders' equity			
Share capital	685,269	-	685,269
Contributed surplus	18,690	-	18,690
Retained earnings (a,b,c,e)	215,734	(61,513)	154,221
	919,693	(61,513)	858,180
Total liabilities and shareholders' equity	\$1,555,743	\$(20,721)	\$1,535,022

Reconciliation of equity as at March 31, 2010:

(\$Cdn thousands)	Previous GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable and prepaids	71,387	-	71,387
Deferred tax assets (i)	1,033	(1,033)	-
	72,420	(1,033)	71,387
Exploration and evaluation assets (a,f)	-	135,165	135,165
Property, plant and equipment (a,b,d,e)	1,439,874	(134,625)	1,305,249
Goodwill (e)	83,716	(39,897)	43,819
	1,523,590	(39,357)	1,484,233
Total assets	\$1,596,010	\$(40,390)	\$1,555,620
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities (c)	\$ 80,295	\$ (17)	\$ 80,278
Dividends payable	4,426	-	4,426
Commodity derivative liabilities	2,909	-	2,909
	87,630	(17)	87,613
Long-term debt	384,995	-	384,995
Compensation liabilities (c)	586	(80)	506
Commodity derivative liabilities	18	-	18
Asset retirement obligations (b)	62,095	56,900	118,995
Deferred tax liabilities (h,i)	136,116	(15,771)	120,345
	583,810	41,049	624,859
Shareholders' equity			
Share capital	687,188	-	687,188
Contributed surplus	20,244	-	20,244
Retained earnings (b,c,d,e,f,h)	217,138	(81,422)	135,716
	924,570	(81,422)	843,148
Total liabilities and shareholders' equity	\$1,596,010	\$(40,390)	\$1,555,620

Reconciliation of equity as at December 31, 2010:

(\$Cdn thousands)	Previous GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable and prepaids	55,144	-	55,144
Deferred tax assets (i)	593	(593)	-
	55,737	(593)	55,144
Exploration and evaluation assets (a,c,f,g)	-	141,852	141,852
Property, plant and equipment (a,b,d,e)	1,457,615	(155,366)	1,302,249
Goodwill (e)	83,716	(49,137)	34,579
	1,541,331	(62,651)	1,478,680
Total assets	\$1,597,068	\$ (63,244)	\$1,533,824
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities (c)	\$ 56,233	\$ (50)	\$ 56,183
Dividends payable	4,438	-	4,438
Commodity derivative liabilities	1,256	-	1,256
	61,927	(50)	61,877
Long-term debt	438,566	-	438,566
Commodity derivative liabilities	4,084	-	4,084
Compensation liabilities (c)	705	(86)	619
Asset retirement obligations (b)	62,673	65,586	128,259
Deferred tax liabilities (h,i)	128,782	(21,515)	107,267
	634,810	43,985	678,795
Shareholders' equity			
Share capital	689,757	-	689,757
Contributed surplus	26,552	-	26,552
Retained earnings (b,c,d,e,f,g,h)	184,022	(107,179)	76,843
	900,331	(107,179)	793,152
Total liabilities and shareholders' equity	\$1,597,068	\$ (63,244)	\$1,533,824

Reconciliation of consolidated statement of net earnings (loss) and comprehensive income (loss) for the three months ended March 31, 2010:

(\$Cdn thousands)	Previous GAAP	Effect of transition to IFRS	IFRS
Revenues			
Oil and natural gas	\$105,519	\$ -	\$105,519
Royalties	(16,814)	-	(16,814)
	88,705	-	88,705
Realized gain (loss) on commodity derivatives	(1,719)	-	(1,719)
Unrealized gain (loss) on commodity derivatives	(334)	-	(334)
	86,652	-	86,652
Expenses			
Operating	22,706	-	22,706
Transportation	2,329	-	2,329
General and administrative	4,598	-	4,598
Share-based compensation (c)	1,791	(5)	1,786
Depletion and depreciation (d,e)	43,258	(2,495)	40,763
Goodwill impairments (e)	-	20,513	20,513
Exploration and evaluation (f)	-	527	527
Interest	3,946	-	3,946
Accretion (b)	-	1,158	1,158
	78,628	19,698	98,326
Earnings (loss) before tax	8,024	(19,698)	(11,674)
Deferred income tax expense (reduction) (h)	2,194	211	2,405
Net earnings (loss) and comprehensive income (loss)	\$ 5,830	\$(19,909)	\$(14,079)
Net earnings (loss) per share			
Basic	\$ 0.07		\$ (0.16)
Diluted	\$ 0.07		\$ (0.16)

Reconciliation of consolidated statement of earnings (loss) and comprehensive income (loss) for the year ended December 31, 2010:

(\$Cdn thousands)	Previous GAAP	Effect of transition to IFRS	IFRS
Revenues			
Oil and natural gas	\$ 373,327	\$ -	\$373,327
Royalties	(57,347)	-	(57,347)
	315,980	-	315,980
Realized gain (loss) on commodity derivatives	(5,239)	-	(5,239)
Unrealized gain (loss) on commodity derivatives	(2,747)	-	(2,747)
	307,994		307,994
Expenses			
Operating	94,237	-	94,237
Transportation	8,588	-	8,588
General and administrative	19,173	-	19,173
Share-based compensation (c)	7,629	(34)	7,595
Depletion and depreciation (d, e)	179,739	5,044	184,783
Goodwill impairments (e)	-	29,752	29,752
Exploration and evaluation (f)	-	16,898	16,898
Loss (gain) on disposal of properties (g)	-	(5,070)	(5,070)
Interest	17,713	-	17,713
Accretion (b)	-	4,639	4,639
	327,079	51,229	378,308
Earnings (loss) before tax			
	(19,085)	(51,229)	(70,314)
Deferred income tax expense (reduction) (h)	(5,096)	(5,563)	(10,659)
Net earnings (loss) and comprehensive income (loss)	\$(13,989)	\$(45,666)	\$ (59,655)
Net earnings (loss) per share			
Basic	\$ (0.16)		\$ (0.64)
Diluted	\$ (0.16)		\$ (0.64)

Notes to reconciliations

(a) IFRS 1 election for full cost oil and gas entities

The deemed cost election within IFRS 1 allows entities using the full cost method of accounting under Previous GAAP to elect that the deemed costs of their oil and gas assets be based on historical carrying values determined under their Previous GAAP. The Company has applied this exemption upon transition to IFRS as follows:

- (i) Exploration and evaluation assets were valued at the amount that was recorded under Previous GAAP; and
- (ii) Oil and gas development and production assets within property, plant and equipment were determined by allocating the net book value under Previous GAAP pro rata using proved and probable reserve values.

The following amount was reclassified to exploration and evaluation assets from property, plant and equipment:

As at	December 31, 2010	March 31, 2010	January 1, 2010
Exploration and evaluation assets	141,852	135,165	128,175
Property, plant and equipment	(141,852)	(135,165)	(128,175)

(b) Asset retirement obligations

Under IFRS, a provision is recognized when a company has a legal or constructive obligation for asset retirement costs. The liability is required to be revalued at each reporting period using a current liability specific discount rate that reflects the time value of money. The unwinding of discount due to the passage of time is reflected as an accretion expense in net earnings. Under Previous GAAP, a liability was recognized when a legal obligation existed. The obligations were initially discounted at a credit adjusted risk free rate. Once recorded, the obligations was not adjusted for future changes in discount rate.

As a result of applying the IFRS 1 election for full cost oil and gas entities, any adjustments to the asset retirement obligations at the date of transition are recognized directly in retained earnings. Subsequent adjustments to the obligation are made to the carrying amount of the asset retirement costs in property, plant and equipment.

For the period ended	December 31, 2010	March 31, 2010	January 1, 2010
Property, plant and equipment	8,596	(94)	-
Asset retirement obligations	8,590	(96)	56,996
Deferred tax liabilities	-	-	(14,800)
Retained earnings	6	2	(42,196)
Accretion expense	(6)	(2)	-

(c) Share-based payments

Under Previous GAAP, the Company recognized an expense related to share-based payments using the graded-vesting method where each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. This methodology is consistent with IFRS. IFRS also requires that forfeiture estimates be recognized on the grant date and revised for actual experiences in subsequent periods. Under Previous GAAP, RSU forfeitures of awards were recognized as they occurred. The Company has incorporated in an estimated forfeiture rate for RSU awards at the date of grant to comply with IFRS requirements.

For the period ended	December 31, 2010	March 31, 2010	January 1, 2010
Exploration and evaluation assets	(10)	-	-
Accounts payable and accrued liabilities	(46)	(13)	(4)
Compensation liabilities	2	8	(88)
Deferred taxes	-	-	24
Retained earnings	34	5	68
General and administrative expense	(34)	(5)	-

(d) Depletion and depreciation

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas assets on a unit-of-production method on an area-by-area basis over proved and probable reserves. The depletion policy under Previous GAAP was based on a unit-of-production basis over proved reserves. In addition depletion was calculated under one cost centre under Previous GAAP. There was also a difference in accounting for depreciation. Under IFRS, the Company capitalized the cost of work-overs and major plant turnarounds and overhauls and depreciates these costs over their useful lives of two years and five years respectively. Under Previous GAAP, the costs of work-overs were depleted in the full cost pool and costs for plant turnarounds were depreciated at a rate of 20% per year.

For the period ended	December 31, 2010	March 31, 2010	January 1, 2010
Property, plant and equipment	18,745	4,937	-
Retained earnings	18,745	4,937	-
Depletion and depreciation	(18,745)	(4,937)	-

(e) Impairments

Under IFRS, an impairment loss is recognized when the carrying value exceeds the recoverable amount, determined to be the higher of fair value less costs to sell or value in use, on a CGU level. Impairments recognized under IFRS are reversed when there has been a subsequent increase in the recoverable amount. The impairment reversal is increased to its revised recoverable amount, net of any depletion that would have been charged as if no impairment loss had been recognized. Under Previous GAAP an impairment test was calculated under one cost center by comparing the asset's estimated undiscounted future cash flows to the carrying amount. If impairment is indicated, then the discounted cash flows are prepared to quantify the amount of impairment. No impairment loss was recognized under Previous GAAP at December 31, 2010. The following table summarizes the impairment loss calculated under IFRS using fair value less costs to sell valuation based on a discounted cash flow:

For the period ended	December 31, 2010	March 31, 2010	January 1, 2010
Property, plant and equipment	(23,789)	(2,442)	-
Goodwill	(29,752)	(20,513)	(19,385)
Retained earnings	(53,541)	(22,955)	(19,385)
Depletion and depreciation	23,789	2,442	-
Goodwill impairments	29,752	20,513	-

(f) Exploration and evaluation expenditures

Under IFRS, there is a separate line item in net earnings for exploration and evaluation expenditures. The Company's policy is to expense undeveloped land where the lease term has expired. Under Previous GAAP, this balance remained capitalized in property, plant and equipment and depleted. The Company recorded exploration and evaluation expenditures related to land expiries as follows:

For the period ended	December 31, 2010	March 31, 2010	January 1, 2010
Exploration and evaluation assets	(16,898)	(527)	-
Retained earnings	(16,898)	(527)	-
Exploration and evaluation expenditures	16,898	527	-

(g) Gains and losses on disposal

Under IFRS, gains and losses are recorded on disposals of assets and are calculated as the difference between the proceeds and the net book value of the asset disposed. Under Previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater, in which case a gain or loss was recorded. For the year ended December 31, 2010, the Company recognized a \$5.0 million gain on disposal under IFRS.

(h) Income taxes

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and Previous GAAP. The impact of deferred income tax expense and a corresponding increase to the Company's Previous GAAP net earnings are as follows:

For the period ended	December 31, 2010	March 31, 2010	January 1, 2010
Deferred tax liabilities	(5,563)	211	(14,800)
Retained earnings	5,563	(211)	14,800
Deferred income tax expenses	(5,563)	211	-

(i) Reclassification of current portion of deferred income taxes

Under IFRS, deferred income tax balances are classified as long-term, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Previous GAAP, deferred income tax relating to current assets or current liabilities must be classified as current. Accordingly, current deferred income tax assets reported under Previous GAAP have been reclassified as non-current under IFRS as follows:

As at	December 31, 2010	March 31, 2010	January 1, 2010
Deferred tax assets	(593)	(1,033)	(1,336)
Deferred tax liabilities	593	1,033	1,336

(j) Cash flows

The transition from Previous GAAP to IFRS had no significant effect on the reported cash flows generated by the Company.