NUVISTA ENERGY LTD.

2004 ANNUAL REPORT

CORPORATE PROFILE

NuVista Energy Ltd. is an independent Canadian oil and natural gas exploration and development company pursuing an integrated growth strategy. We intend to achieve our objective to create and sustain profitable per share growth through exploitation and development of our existing land base, acquisition and subsequent exploitation of new properties and through a selective high impact exploration program in the Western Canada Sedimentary Basin.

NuVista's common shares trade on the Toronto Stock Exchange under the symbol NVA.

Annual Meeting

The annual meeting of shareholders of NuVista Energy Ltd. will be held on May 5, 2005, at 3:00 pm at the Calgary Petroleum Club. Shareholders who are unable to attend this meeting are requested to complete and return their proxies to Valiant Trust Company at their earliest convenience.

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Year ended December 31, 2004	Period ended 2003[1] (restated)	% Change
FINANCIAL			
($ thousands, except per share amounts)			
Production revenue	**79,398**	25,758	208
Cash flow from operations	**49,871**	15,606	220
Per share – basic	**1.29**	0.43	200
Per share – diluted	**1.25**	0.42	198
Net income	**18,322**	5,624	226
Per share – basic	**0.47**	0.15	213
Per share – diluted	**0.46**	0.15	207
Total assets	**173,531**	94,374	84
Shareholders' equity	**115,110**	72,017	60
Net capital expenditures	**89,686**	20,960	328
Weighted average common shares outstanding (thousands)			
Basic	**38,725**	36,360	7
Diluted	**39,897**	37,337	7
OPERATING			
(boe conversion – 6:1 basis)			
Production:			
Natural gas (mmcf/d)	**25.3**	18.7	35
Oil and liquids (bbls/d)	**1,338**	1,009	33
Total oil equivalent (boe/d)	**5,550**	4,133	34
Product prices:			
Natural gas ($/mcf)	**6.61**	5.81	14
Oil and liquids ($/bbl)	**34.03**	28.08	21
Undeveloped land:			
Gross acres	**345,400**	254,200	36
Net acres	**310,800**	221,400	40
Average working interest	**90%**	87%	3
Reserves:			
Proven and probable			
Natural gas (bcf)	**64.9**	39.8	63
Oil and liquids (mbbls)	**3,580**	3,313	8
Total barrels of oil equivalent (mboe)	**14,388**	9,949	45
Finding and development costs ($/boe)			
Total proven	**16.70**	7.82	114
Proven and probable	**14.38**	6.12	135
Recycle ratio (cash flow netback per boe/finding and development costs per boe):			
Total proven	**1.5**	2.6	(42)
Proven and probable	**1.7**	3.3	(48)

[1] Period from July 2, 2003 to December 31, 2003.

MESSAGE TO SHAREHOLDERS

NuVista would like to recognize its dedicated and talented team for their commitment and diligence over the past year.

Craig Burton
Allan Carswell
Richard Coates
Steve Dalman
Dennis Grover
Glenn Hamilton

Chris McDavid
Dan McKinnon
Lisa Mensink
Patrick Miles
Ryan Paulgaard
Darren Roblin

Derrick Stephenson
Gordon Timm
Joshua Truba
Alex Verge
Elaine Wo

We apply our technical and operating expertise within our core regions in a prudent and disciplined manner, through both the drill bit and strategic acquisitions.

When NuVista was formed through the reorganization of Bonavista Petroleum Ltd. in July 2003, our philosophy was to employ the same principles and disciplined growth strategy that led to Bonavista's tremendous success as a high growth exploration and production company. We resolved to apply our technical and operating expertise within our core regions, in a prudent and disciplined manner, through both the drill bit and strategic acquisitions. We believe that by holding firm to this core strategy, NuVista will continue to consistently and profitably grow its production, cash flow and net income, in aggregate and on a per share basis.

We completed nine complementary property acquisitions, including a very strategic private company acquisition which resulted in NuVista adding a new core area at Provost and a new region at Pembina.

The successful execution of our strategy has resulted in significant change at NuVista in the past 21 months. We completed nine complementary property acquisitions, including a very strategic private company acquisition which resulted in NuVista adding a new core area at Provost and a new region at Pembina. We have increased our production 129% to the current level of 8,000 boe/d. We have expanded our prospect inventory by increasing the undeveloped land in our regions by 91%, to over 328,000 net acres, with a similar expansion to our seismic database. In the first 21 months of operations, we have invested approximately $135 million in capital programs, replacing our production more than three times at a cumulative recycle ratio of 2.1:1.

During the third quarter of 2004, NuVista's acquisition of a private company for approximately $47.4 million provided us with a significantly expanded land position and prospect inventory in two areas, the Provost area (a northwest extension of NuVista's existing Eastern Alberta Region) and a new core region in the Pembina area of Alberta. Following the completion of the acquisition, we increased our 2004 base capital budget from $70 million to $90 million. The expanded capital program resulted in an increase in our year-end exit production to 7,100 boe/d from the 6,700 boe/d originally forecasted.

The magnitude of the private company acquisition, coupled with an increasing cost environment and the competitiveness of the 2004 acquisition market, resulted in overall proven and probable finding and development costs of $14.38/boe for 2004 and a respectable proven and probable recycle ratio of 1.7:1. Both facility constraints and drilling delays prevented NuVista from fully capitalizing on the value of the prospect inventory on the acquired lands. The impact of the development opportunities on the acquired lands will be more apparent in 2005 with current production on the acquired lands increasing over 25% since the end of 2004.

Although acquisitions represented over half of our 2004 capital program, NuVista also carried out an active exploration and development ("E&D") program which resulted in the drilling of 81 wells. We achieved an 86% success rate yielding 55 gas wells and 15 oil wells. Our average working interest in the program was 80% and we operated 74 of the 81 wells we participated in. Approximately 30% of NuVista's

E&D expenditures were on land and seismic programs, designed to expand our prospect inventory for 2005.

Though NuVista completed a very active, growth-oriented year in 2004, our financial and operational discipline kept our costs relatively low. During 2004, our recorded cash costs of $5.02/boe placed NuVista in the top decile of its industry peers.

Although it is important to reflect on NuVista's successes over the past year, naturally shareholders are even more interested in what we plan to do tomorrow, next month and over the next five years.

For 2005, NuVista's Board of Directors has approved an initial capital program of $100 million. The program anticipates spending $55 million for E&D expenditures and $45 million for acquisitions. The budget is directed 70 – 75% toward natural gas. NuVista anticipates drilling over 100 wells with an average working interest between 75 – 80%. Two-thirds of the locations are directed toward natural gas with 60% of the locations in our Oyen core area and the remaining 40% split between our newly acquired Provost core area and Pembina region.

Over 30% of NuVista's 2005 capital budget is focused on land, seismic and facilities. Company-operated natural gas processing facilities will be constructed in both Oyen and Provost to process increasing volumes from our 2005 drilling program. Our expanded prospect inventory and focus in three core areas will ensure NuVista's E&D growth will continue throughout 2005 and beyond.

The 2005 capital program should result in average production between 8,200 and 8,600 boe/d for the year with a 70 – 75% natural gas weighting. Using forecast prices of $6.53/gj at AECO for natural gas and US$47.75/bbl WTI for oil, this production forecast should result in cash flow in the range of $70 to $75 million ($1.75 to $1.85 per share) for 2005.

NuVista has made an aggressive start to 2005. In the first three months of the year we have participated in 25 wells with an average working interest 68% and achieved an 88% success rate.

NuVista has made an aggressive start to 2005. In the first three months of the year, we have participated in 25 wells with an average working interest of 68% and achieved an 88% success rate. We have also completed two complementary property acquisitions. The impact of our 2005 capital program has resulted in production increasing to the current rate of 8,000 boe/d. The early spring break up has delayed the on-stream date for first quarter drilling; we have over 30 approved locations waiting for the resumption of drilling, later this spring. NuVista is in an excellent position to achieve our production guidance.

NuVista was established with strategies for success that have already been proven by Bonavista's remarkable history. From the outset, we have concentrated on certain core regions in which we have proven expertise and in which we could establish a dominant position. Our focus has primarily been on medium depth, medium risk opportunities with potential for multiple horizons.

To control costs and the pace of growth, we seek to operate with a high working interest ownership. We look for timely and strategic acquisitions which complement our program by increasing our prospect inventory in areas where we plan to dominate.

With an undeveloped land base now exceeding 328,000 net acres, a substantial inventory of drilling prospects and solid balance sheet, NuVista has all the elements of a successful, growth oriented company.

Finally, we have resolved to always enforce stringent cost controls and maintain our financial flexibility. Today, the NuVista team is confident that these strategies will continue to result in increased opportunities, production growth and ultimately enhanced shareholder value.

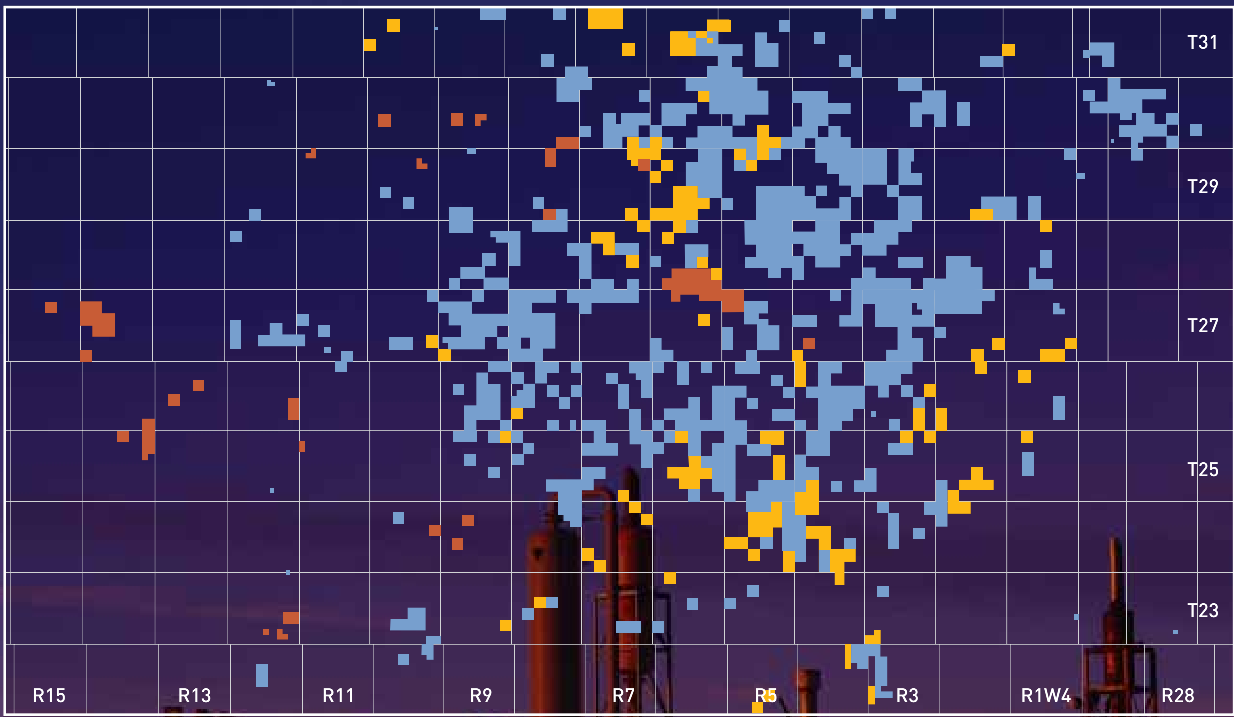
On January 1, 2005 we increased our employee base with the establishment of separate technical teams in our core areas. These personnel are a combination of former Bonavista employees who had previously worked on the development of NuVista's core areas as well as several new employees. With an undeveloped land base now exceeding 328,000 net acres, a substantial inventory of drilling prospects and a solid balance sheet, NuVista has all the elements of a successful, growth oriented company. Under the leadership of NuVista's skilled management and technical team, we plan to continue transforming opportunity into success for many years to come.

Keith A. MacPhail,
Chairman

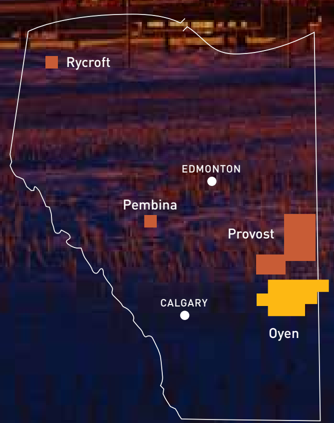
Alex G. Verge,
President and CEO
March 21, 2005

OPERATIONS REVIEW

OYEN



NuVista Land, July 2, 2003 — NuVista Land Acquisitions (2003/04) — NuVista Land Acquisitions (2005 YTD)



- Current production of 22.5 mmcf/d and 235 bbls/d;
- 10 natural gas horizons at less than 1,100 metres;
- Operate virtually all production;
- Operated facilities process over 90% of production;
- Average working interest of 85%;
- 50 wells drilled or re-entered in 2004; and
- 60 drilling or re-entry locations identified for 2005.

EASTERN ALBERTA REGION

Located northeast of the city of Calgary, the Eastern Alberta Region is the main focus of NuVista's exploration and development program in 2005. The vast majority of NuVista's current undeveloped land base is in this region. The average working interest in this region is approximately 80%; and there are 10 prospective natural gas horizons at drill depths less than 1,100 metres. In 2004, 76 of NuVista's 81 wells drilled or re-entered were in this region. The average cost to drill, complete and tie-in a well in this area is approximately $420,000 and successful wells have statistically yielded 0.3 – 0.4 bcf of natural gas per well.

The strategic acquisition of a private company in the third quarter of 2004 enabled NuVista to split the Eastern Alberta Region into two core areas, Oyen to the south and Provost to the north. NuVista now has three separate technical teams working the assets in our Eastern Alberta Region. As a result, the prospectivity within this region has increased dramatically from a region that had supported 50 locations in 2003 to a region that currently supports over 80 locations.

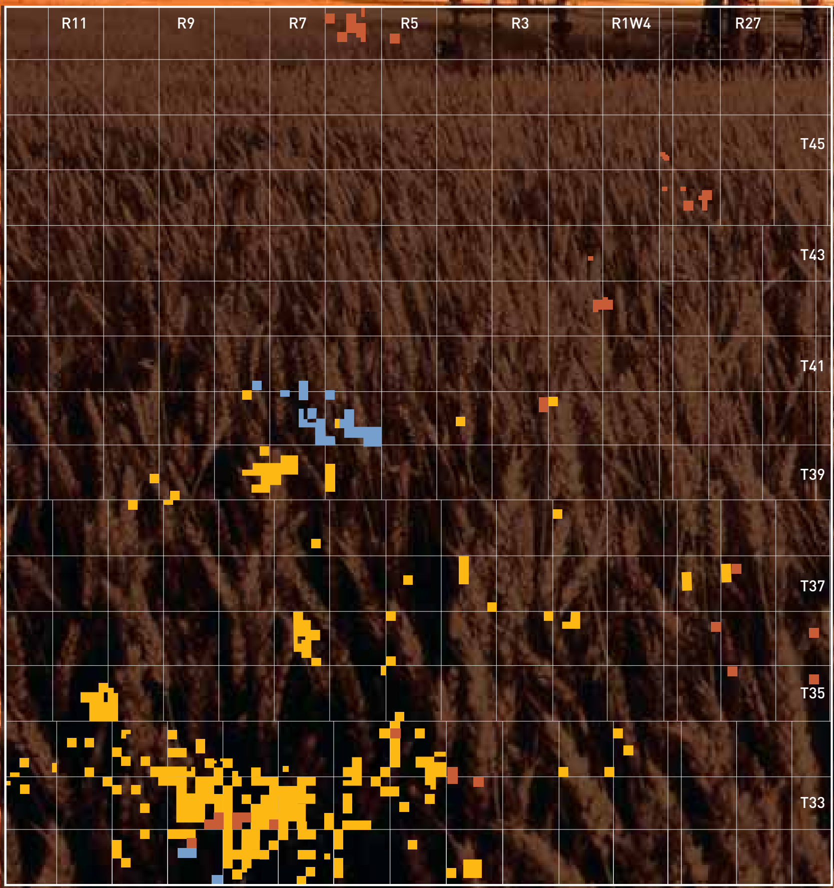
Oyen Core Area

The Oyen Core Area is located 175 km east of Calgary near the Alberta-Saskatchewan border. Over the past 21 months NuVista has increased production in this core area by 50%, to the current level of 22.5 mmcf/d of natural gas and 235 bbls/d of oil and liquids. This area is NuVista's largest core area, supporting approximately 50 drilling or re-entry prospects each year. In 2004, NuVista drilled or re-entered 48 wells in the area, with an average working interest of 87%. We achieved an average success rate of 88%, yielding 40 (34.9 net) natural gas wells, 2 (1.1 net) oil wells, and 6 (5.5 net) dry holes. NuVista operated 41 of the 48 wells that were drilled or re-entered.

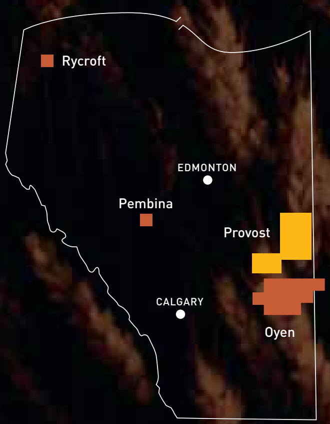
In our Oyen core area, we operate five main facilities and a number of field compressors, which process over 90% of our production. We have 45 mmcf/d of processing capacity with a 75% utilization rate. NuVista's extensive pipeline and facility network in the Oyen core area allows us to connect production quickly and efficiently. In the first three months of 2005, NuVista acquired a partner's interest in a key natural gas processing facility in this core area, further strengthening our dominant position. A number of facility initiatives are planned for 2005 which will result in increased capacity for our 2005 production additions.

In 2005, NuVista plans on drilling or re-entering 60 wells in Oyen. Of these wells, 45 will target natural gas, while the remaining 15 will delineate a light oil pool discovered at the end of 2004.

PROVOST



NuVista Land, July 2, 2003 | NuVista Land Acquisitions (2003/04) | NuVista Land Acquisitions (2005 YTD)



- Current production of 6.8 mmcf/d and 1,925 bbls/d;
- 10 natural gas horizons at less than 1,100 metres;
- Operate virtually all production;
- Minor facility interest, new operated processing facility for 2005;
- Significant undeveloped land and pipeline interest;
- Average working interest of 75%;
- 20 wells drilled or re-entered in 2004; and
- 25 drilling or re-entry locations identified for 2005.

Provost Core Area

The Provost core area is located 50 km north of the Oyen core area in the Eastern Alberta Region. The southern portion of this core area is predominantly natural gas, whereas the northern portion of the area is predominantly oil. NuVista's current production in the Provost core area is 6.8 mmcf/d of natural gas and 1,925 bbls/d of oil. On a boe basis, production has increased 260% from 850 bbls/d in July, 2003.

In 2004, NuVista drilled or re-entered 28 wells in this area, with an average working interest of 69%. We achieved an average success rate of 86%, yielding 11 (8.5 net) natural gas wells, 13 (7.6 net) oil wells, and 4 (3.0 net) dry holes. NuVista operated all of the 28 wells.

The increase in natural gas production resulted primarily from the private company acquisition in the third quarter of 2004. NuVista is the designated operator of the majority of our wells, however we do not operate any of the natural gas processing facilities in the area and the third party operated facilities are operating near capacity. In the first half of 2005, NuVista is planning to construct an operated natural gas processing facility in order to provide sufficient capacity for an active second half drilling program in the Provost core area.

NuVista has a high working interest in the contiguous land block in the natural gas portion of the Provost core area. This natural gas production is serviced by an extensive pipeline network and NuVista has recently acquired 800 km of two-dimensional seismic data over these lands. NuVista plans to drill or re-enter 15 – 20 natural gas targets in the Provost core area in 2005, with an average working interest of approximately 75%.

The increase in oil production came from the optimization of the Amisk oil pool in the northern portion of the Provost core area, in addition to a recent acquisition which was completed in the first quarter of 2005. The oil production in the area comes from a number of pools ranging in gravity from 16° to 26° API, averaging 20° API. NuVista plans on drilling or re-entering five to seven locations targeting oil, and one to three locations targeting natural gas in this area in 2005. Our average working interest for these wells will be over 90%.

PEMBINA REGION

NuVista's initial ownership in the Pembina Region resulted from the strategic private company acquisition, coupled with a farm-in in the Chip Lake area. NuVista has access to over 20,000 net acres of undeveloped land in this region. The Pembina Region is located 100 km east of Edmonton and is characterized by multiple zones, containing both light oil and liquid rich natural gas targets. NuVista's current production in the Pembina Region is 3.5 mmcf/d and 100 bbls/d of oil and liquids.

In 2004, NuVista drilled or re-entered five wells in this region, with an average working interest of 81%. We achieved an average success rate of 80% yielding four (3.1 net) natural gas wells and one (1.0 net) dry hole. NuVista operated all of the five wells.

In the first three months of 2005, NuVista has significantly increased its activity level in the Pembina Region, participating in nine wells with an average working interest of approximately 40%. We achieved an average success rate of 89%, yielding eight (2.6 net) natural gas wells and one (1.0 net) dry hole. NuVista operated five of the nine wells.

NuVista plans on drilling or re-entering an additional 14 wells with an average working interest of 55% during the remainder of 2005.

- Current production of 3.5 mmcf/d and 100 bbls/d;
- Low risk shallow natural gas program;
- Medium risk drilling on acquired and option lands;
- Average working interest of 55%;
- Five wells drilled or re-entered in 2004; and
- 20 – 25 drilling or re-entry locations identified for 2005.

PETROLEUM RESERVES

All of NuVista's reserves as at December 31, 2004 were evaluated by independent engineers, Gilbert Laustsen Jung Associates Ltd.

The implementation of the reserve reporting guidelines National Instrument 51-101 ("NI 51-101") in 2003 resulted in increased confidence levels being required for the reporting of proven reserves and the incorporation of risk in the reporting of probable reserves. In order to compare the opening balance of proven and probable reserves on July 2, 2003 with the year-end reserves, the probable reserves as at July 2003 have been reduced by 50% to account for this risk. In addition, all finding and development costs have been adjusted to reflect the change in future capital expenditures required to bring the reserves on-stream. In the current reporting period, changes in future capital expenditures were $0.5 million and $3.4 million in the proven and proven plus probable categories respectively. The net present value of future cash flows in the reserve reports have been reduced to reflect the abandonment costs of all of NuVista's net wells and facilities.

In 2004, NuVista's capital program of $89.7 million added 5.4 mmboe of proven reserves and 6.5 mmboe of proven and probable reserves, resulting in finding and development ("F&D") costs of $16.70/boe (proven) and $14.38/boe (proven and probable).

The January 1, 2004 opening balance of proven reserves experienced a positive revision of 6.9%, while the proven and probable reserves experienced a slight negative revision of 0.3%. The proven reserve revisions were largely due to improved performance on some of our producing properties.

The acquisition market in 2004 proved to be highly competitive. In the latter half of 2004 NuVista consummated a strategic acquisition of a private company, which represented over half of the total capital expenditures for 2004. This acquisition provided a significant expansion to our prospect inventory for 2005. These prospects were included as development opportunities in NuVista's internal evaluation at the time of the acquisition. Only a minor portion of these development opportunities were included for this property in the year-end reserve evaluation in keeping with our general philosophy to book reserves as the capital is spent rather than pre-booking opportunities. This led to acquisition F&D costs which were almost twice those of the E&D program. We anticipate the F&D cost associated with the acquisition to diminish over time and have seen evidence to support this in early 2005.

Since inception in July of 2003, proven reserves have increased 103%. Proven and risked probable reserves have increased 112%. The highlights of NuVista's reserve additions for 2004 are as follows:

- Approximately 88% of the reserve additions were natural gas;
- Reserves have increased from 67% natural gas to 75% natural gas;
- Proven producing reserves have increased from 59% to 68% of the total reserves; and
- Total proven reserves represent 78% of the total reserves.

Independent engineers, Gilbert Laustsen Jung Associates Ltd., have evaluated all of NuVista's petroleum reserves as at December 31, 2004. The following table summarizes the key information of these reserves:

	Natural gas		Oil and liquids		Present Value of Cash Flow Before Tax Discounted at [2]		
	Gross [1]	Net [1]	Gross [1]	Net [1]	0%	10%	15%
	(mmcf)	(mmcf)	(mbbls)	(mbbls)	(thousands)		
Proven producing	41,468	32,675	2,875	2,548	$ 217,902	$ 155,630	$ 138,255
Proven non-producing	6,710	5,286	75	63	23,800	15,586	13,336
Proven undeveloped	1,029	762	2	1	3,360	1,565	1,142
Total proven	49,207	38,723	2,952	2,612	245,062	172,781	152,733
Probable	15,643	12,342	628	555	71,241	36,441	28,916
Total	64,850	51,065	3,580	3,167	$ 316,303	$ 209,222	$ 181,649

[1] "Gross" reserves are the total remaining recoverable reserves owned by NuVista before deduction of royalties. "Net" reserves are defined as those accruing to NuVista after all royalty interests owned by others, including Crown and freehold royalties, have been deducted.

[2] The pricing forecast used in determining the value of cash flow is based on the January 1, 2004 forecast determined by Gilbert Laustsen Jung Associates Ltd.

Reconciliation of Reserves

	Natural gas			Oil and liquids		
	Proven	Probable	Total	Proven	Probable	Total
		(mmcf)			(mbbls)	
Reserves, December 31, 2003	31,205	8,609	39,814	2,584	728	3,312
Net additions	25,110	9,302	34,412	282	161	443
Revisions	2,141	(2,268)	(127)	576	(261)	315
Production	(9,249)	–	(9,249)	(490)	–	(490)
Reserves, December 31, 2004	49,207	15,643	64,850	2,952	628	3,580

	Natural gas	Oil and liquids	Total Boe
Reserve life index (years)			
Proven	4.6	5.5	4.8
Proven and probable	5.5	6.3	5.7
Net reserve replacement (additions + revisions/production)			
Proven	3.0	1.8	2.7
Proven and probable	3.7	1.6	3.2

	Year ended December 31, 2004	Period ended December 31, 2003[1]
Finding and on-stream costs ($/boe)		
Proven	16.70	7.82
Proven and probable	14.38	6.12
Recycle ratio (cash flow netback/finding and on-stream costs)		
Proven	1.5	2.6
Proven and probable	1.7	3.3

[1] Period is from July 2, 2003 to December 31, 2003.

Undeveloped Land

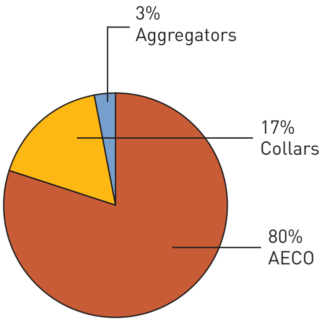
	December 31, 2004	December 31, 2003	% Change
Gross acres	345,400	254,200	36
Net acres	310,800	221,400	40
Average working interest	90%	87%	3
Estimated value ($ thousands)	23,310	12,398	88

Seismic

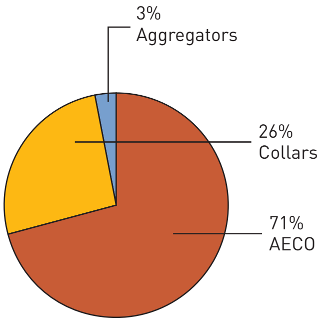
NuVista started on July 2, 2003 with over 5,000 km of 2D seismic data and 180 sq km of 3D seismic data. We now have almost 7,000 km of 2D seismic data and 435 sq km of 3D seismic data. Our seismic program, which complements our land activities and enhances our exploratory opportunities, has been extremely active. In 2004, we purchased 1369 km of 2D trade data, shot 99 km of 2D proprietary data, purchased 33 sq km of 3D data, and shot 117 sq km of proprietary 3D seismic for a total capital investment of $5.98 million. A substantial amount of new data was acquired in the fourth quarter of 2004 to help establish a number of high quality locations for 2005. This program continues in 2005 with NuVista planning to invest over $6.5 million on purchasing and shooting seismic data.

MARKETING

CONTRACT PORTFOLIOS



2004 Natural Gas Price Portfolio
Volumes: 25.3 mmcf/d
Average Price: $6.61/mcf



2005 Natural Gas Price Portfolio
Volumes: 35.0 mmcf/d
Average Price: $6.78/mcf

Natural gas

NuVista has established a natural gas transportation and sales portfolio which will ensure receipt capacity at a reasonable cost and provide an appropriate customer base. Our marketing objectives also include protecting or securing minimum prices for up to 50% of our net after royalty production for terms not exceeding two years. Our hedging methodology is primarily comprised of costless collars. In order to control and manage credit risk and ensure competitive bids, NuVista engages a number of reputable counter parties for our natural gas transactions. Our sales portfolio also includes sales to traditional aggregators.

The integration and application of these strategies resulted in an average realized price of Cdn$6.61/mcf for the year ended December 31, 2004. For 2005, NuVista is forecasting its natural gas price to average $6.78/mcf based on an expected average 2005 NYMEX natural gas price of US$6.45/mmbtu.

Oil and liquids

NuVista sells its oil and liquids production to a variety of purchasers. This enables us to benefit from specific regional advantages, while maintaining price and delivery flexibility. NuVista is continually monitoring global and regional crude oil markets and looks for opportunities to hedge up to 50% of our net after royalty production.

In 2004, NuVista's average realized oil and liquids price was Cdn$34.03/bbl. The 2005 budget is based on a West Texas Intermediate price of US$47.75/bbl, which converts to approximately Cdn$37.31/bbl realization at the wellhead.

Additional details on NuVista's hedging program are shown in our Management's Discussion and Analysis on page 17 of this Annual Report.

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 the audited consolidated financial statements for the year ended December 31, 2004 and for the period from July 2, 2003 to December 31, 2003, presented in this annual report and is based on information to March 21, 2005. Our audited consolidated financial statements, current annual information form and other disclosure documents are filed on SEDAR at *www.sedar.com*, and other corporate documentation can be obtained from our website at *www.nuvistaenergy.com*.

Basis of Presentation

The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated.

Forward-Looking Statements

Certain information set forth in this document, including management's assessment of NuVista's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond NuVista's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. 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 that 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.

Non-GAAP Measurements

Within the Management's discussion and analysis references are made to terms commonly used in the oil and gas industry. Cash flow and cash flow per share are not defined by GAAP in Canada and are referred to as non-GAAP measures. Cash flow represents funds from operations as detailed on the Statement of Cash Flows. Cash flow per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Netbacks equal total revenue less royalties and operating costs calculated on a boe basis. Total boes are calculated by multiplying the daily production by the number of days in the year.

Creation of NuVista Energy Ltd.

On June 26, 2003, the shareholders of Bonavista Petroleum Ltd. ("Bonavista") approved a corporate reorganization as described in the Plan of Arrangement dated May 23, 2003, which became effective on July 2, 2003. Through this reorganization, we received approximately 3,500 boe/d of production and 172,000 net acres of undeveloped land from Bonavista. For each share of Bonavista, shareholders received two trust units of Bonavista Energy Trust (the "Trust") or two Exchangeable Shares, exchangeable into trust units of the Trust, and one of our common shares.

Operating activities

For the year ended December 31, 2004, NuVista participated in a total of 81 wells with an average working interest of 80%, while achieving a success rate of 86%. This program resulted in 55 natural gas wells, 15 oil wells and 11 dry and abandoned wells. During the fourth quarter of 2004, NuVista participated in 27 wells with an average working interest of 77% and operated 26 of the 27 wells. The success rate of 85% in this drilling program resulted in 16 natural gas wells and seven oil wells. Two projects, one in Pembina and one in Oyen experienced delays in the fourth quarter with only three of the 11 planned wells being drilled and no production being added until the first quarter of 2005. To date in 2005, NuVista has participated in 25 wells, with an average working interest of 68% and achieved an 88% success rate resulting in 18 natural gas wells, five oil wells and two dry and abandoned wells. NuVista continues to actively drill in each of its three core areas, with over 30 wells planned for the second quarter of 2005.

Overview

The tables below set forth a summary of operations, including netbacks for the year ended December 31, 2004 compared to the period from July 2, 2003 to December 31, 2003 and netbacks on a product basis:

	Year ended December 31, 2004		Period ended December 31, 2003[1]		% Change 2004 – 2003	
Production	**5,550 boe/d**		4,133 boe/d		34%	
	(thousands)	**(/boe)**	(thousands)	(/boe)	(total)	(/boe)
			(restated)			
Field netback:						
Production revenue	**$ 79,398**	**$ 39.09**	$ 25,758	$ 34.05	208	15
Royalties, net of ARTC	**(17,701)**	**(8.72)**	(6,079)	(8.04)	191	8
Transportation costs	**(1,630)**	**(0.80)**	(624)	(0.82)	161	(2)
Operating expenses	**(8,392)**	**(4.13)**	(2,792)	(3.69)	201	12
Field netback	**51,675**	**25.44**	16,263	21.50	218	18
General and administrative	**(834)**	**(0.41)**	(268)	(0.35)	211	17
Interest	**(574)**	**(0.28)**	(282)	(0.37)	104	(24)
Capital taxes	**(396)**	**(0.20)**	(107)	(0.14)	270	43
Cash flow netback	**49,871**	**24.55**	15,606	20.64	220	19
Stock-based compensation	**(1,035)**	**(0.51)**	(461)	(0.61)	125	(16)
Depreciation, depletion and accretion	**(19,727)**	**(9.71)**	(5,963)	(7.88)	231	23
Future income taxes	**(10,787)**	**(5.31)**	(3,558)	(4.70)	203	13
Net income	**$ 18,322**	**$ 9.02**	$ 5,624	$ 7.45	226	21

[1] Period is from July 2, 2003 to December 31, 2003.

Netback by Product	Natural gas		Oil and liquids		2004 Total	
2004 production	**25.3 mmcf/d**		**1,338 bbls/d**		**5,550 boe/d**	
	(thousands)	(/mcf)	(thousands)	(/bbl)	(thousands)	(/boe)
Field netback:						
Production revenue	$ 62,119	$ 6.72	$ 17,279	$ 35.28	$ 79,398	$ 39.09
Royalties, net of ARTC	(14,814)	(1.60)	(2,887)	(5.90)	(17,701)	(8.72)
Transportation costs	(1,016)	(0.11)	(614)	(1.25)	(1,630)	(0.80)
Operating expenses	(6,412)	(0.69)	(1,980)	(4.04)	(8,392)	(4.13)
Field netback	$ 39,877	$ 4.32	$ 11,798	$ 24.09	$ 51,675	$ 25.44

Production

NuVista's production of 5,550 boe/d for the year ended December 31, 2004 benefited from continued success in its overall capital programs and consisted of 25.3 mmcf/d of natural gas and 1,338 bbls/d of oil and liquids. For the period from July 2, 2003 to December 31, 2003, NuVista produced 4,133 boe/d, made up of 18.7 mmcf/d of natural gas and 1,009 bbls/d of oil and liquids. For the fourth quarter of 2004, NuVista's average production was 6,703 boe/d, which was comprised of 31.2 mmcf/d of natural gas and 1,511 bbls/d of oil and liquids and represents a 55% increase over the same period of 2003. A portion of NuVista's fourth quarter natural gas drilling success was brought on-stream in the first quarter of 2005.

Revenues

Revenues for the year ended December 31, 2004 were $79.4 million, a 208% increase over the $25.8 million for the period from July 2, 2003 to December 31, 2003 due to the higher production levels, stronger commodity pricing and the longer reporting period in 2004. Revenues for the three months ended December 31, 2004 were $24.6 million, an 88% increase from $13.1 million for the same period of 2003. These revenues were comprised of $20.0 million of natural gas and $4.6 million of oil and liquids. The increase in revenues for the three months ended December 31, 2004 versus the same period of 2003 results from a 55% increase in production and a 21% increase in commodity prices. The increase in commodity prices, net of transportation costs, is made up of a 21% increase in the natural gas price to $6.83/mcf from $5.64/mcf and a 23% increase in the oil and liquids price to $32.59/bbl from $26.56/bbl.

Commodity hedging

For the year ended December 31, 2004, a net loss of $735,000 was experienced due to the stronger than expected commodity prices realized throughout the year. As part of our financial management strategy, NuVista has adopted a disciplined commodity hedging program. The purpose of the hedging program is to reduce volatility in the financial results, protect acquisition economics and stabilize cash flow against the unpredictable commodity price environment. At any given period of time, our hedging strategy is restricted to a maximum of 50% of forecast production, net of royalties and primarily utilizes costless collars. This strategy limits NuVista's exposure to downturns in commodity prices while allowing for participation in commodity price increases. In the fourth quarter of 2004, our hedging program was virtually neutral and resulted in a net loss of only $5,000. The following is a summary of hedging contracts in place as at December 31, 2004:

a) Financial instruments:

WTI	Average price (US$/bbl)	Term
250 bbls/d	$ 40.00 – $ 65.00	January 1, 2005 – March 31, 2005
250 bbls/d	$ 40.00 – $ 60.00	April 1, 2005 – June 30, 2005
250 bbls/d	$ 40.00 – $ 55.00	July 1, 2005 – September 30, 2005
250 bbls/d	$ 35.00 – $ 57.25	October 1, 2005 – December 31, 2005

As at December 31, 2004, the market value of these financial instruments was approximately $171,000.

b) Physical purchase contracts:

AECO		Average price (Cdn$/gj)	Term
8,300	gj/d	$ 5.78 – $ 9.75	January 1, 2005 – March 31, 2005
10,000	gj/d	$ 6.13 – $ 9.06	April 1, 2005 – October 31, 2005

Royalties

Royalties for the year ended December 31, 2004 were $17.7 million an increase of 191% over the $6.1 million for the fiscal period of 2003. This increase results from the higher revenues in 2004 versus 2003. The 2004 royalties were 22% of revenues, 24% for natural gas and 17% for oil and liquids. This compares to 24% of revenues for 2003, 26% for natural gas and 15% for oil and liquids. Royalties of $5.4 million for the three months ended December 31, 2004 were 83% higher than the $3.0 million for the same period of 2003. The increase in royalties in the fourth quarter resulted from higher revenues compared to the same period of 2003, largely generated by higher production volumes and higher commodity prices. As a percentage of revenue, the average royalty rate for the fourth quarter of 2004 was 22% compared to 23% for the comparative period of 2003. Royalties by product for the fourth quarter of 2004 were 23% for natural gas and 18% for oil and liquids versus 27% for natural gas and 16% for oil and liquids for the similar period in 2003. The decrease in the natural gas royalty rate results from gas cost allowance credits received during the fourth quarter of 2004.

Transportation costs

For the year ended December 31, 2004 transportation costs were $1.6 million ($0.80/boe) versus $624,000 ($0.82/boe) for the period from July 2, 2003 to December 31, 2003. Transportation costs were $496,000 ($0.80/boe) for the three months ended December 31, 2004 as compared to $326,000 ($0.82/boe). The 52% increase in transportation costs results from higher production rates in the fourth quarter of 2004 versus 2003.

Operating

Operating expenses for the year ended December 31, 2004 were $8.4 million or $4.13/boe, compared to $2.8 million or $3.69/boe for the period from July 2, 2003 to December 31, 2003, an increase of 201% because of the increase in production rates and longer reporting period in 2004. On a per boe basis, operating costs have increased in 2004 because of a higher per unit cost of the private company acquisition and cost pressures facing the oil and natural gas industry. By commodity, operating expenses were $0.69/mcf for natural gas and $4.04/bbl for oil and liquids for the year ended December 31, 2004 versus $0.58/mcf for natural gas and $4.32/bbl for oil and liquids for the 2003 fiscal period. This places us among the top in our peer group in this performance criteria. Operating expenses were $2.7 million for the three months ended December 31, 2004 versus $1.5 million for the same period of 2003, a 78% increase. This increase resulted primarily from the higher production volumes and higher per unit natural gas operating costs associated with the private company acquisition. In the fourth quarter of 2004, natural gas operating expenses averaged $0.73/mcf and oil and liquids operating expenses were $4.19/bbl as compared to $0.60/mcf and $4.38/bbl respectively for the same period of 2003. On a boe basis, operating costs increased 15% to $4.34/boe in the fourth quarter of 2004 as compared to $3.79/boe for the same period of 2003, again, primarily due to higher per unit costs of the newly acquired natural gas assets and increasing cost pressures facing the industry. Despite these increases, NuVista still remains in the top decile for oil and natural gas companies in its peer group. Overall, NuVista's cash costs, which include operating, general and administrative, interest expenses and Large Corporations Tax, were $5.66/boe in the fourth quarter of 2004 compared to $4.38/boe for the same period of 2003 and $5.02 for the year ended December 31, 2004.

General and administrative

General and administrative expenses, net of overhead recoveries were $834,000 ($0.41/boe) for the year ended December 31, 2004, compared to $268,000 ($0.35/boe) for the period from July 2, 2003 to December 31, 2003. General and administrative expenses, net of overhead recoveries for the fourth quarter of 2004, were $326,000 ($0.53/boe), an increase of 131% over the $141,000 ($0.35/boe) for the three months ended December 31, 2003, and is directly attributable to the higher production base in NuVista and the allocation of overhead costs and bonuses in accordance with the Technical Services Agreement with Bonavista. Included in these expenses for 2004 is an allocation of $508,000 (2003 – $197,000) for the three months ended and $1.3 million (2003 – $372,000) for the year ended December 31, 2004, charged pursuant to the Technical Services Agreement with Bonavista. The Technical Services Agreement, entered into as part of the Plan of Arrangement, allows NuVista to initiate and continue with its successful and active capital programs, through the use of Bonavista's personnel in managing its operations. This results in NuVista being able to take advantage of Bonavista's low overhead cost structure. As a result of adopting the new accounting rules, NuVista recorded a stock-based compensation charge of $302,000 for the three months and $1.0 million for the year ended December 31, 2004, in connection with the issuance of both the Class B Performance

Shares and stock options. The stock-based non-cash compensation charge to net income for the three months ended December 31, 2003 was $231,000 and $268,000 for the period from July 2, 2003 to December 31, 2003.

(thousands)	Year ended December 31, 2004	Period ended December 31, 2003[1]
Gross	$ 2,339	$ 631
Overhead recoveries	(1,505)	(363)
Net general and administrative expenses	$ 834	$ 268
Per boe	$ 0.41	$ 0.35

[1] Period is from July 2, 2003 to December 31, 2003.

Interest

For the year ended December 31, 2004, interest expense was $574,000 ($0.28/boe) as compared to $282,000 ($0.37/boe) for the period from July 2, 2003 to December 31, 2003. Interest expense during the fourth quarter of 2004 was $244,000 ($0.40/boe) versus $38,000 ($0.10/boe) for the same period of 2003. Interest expense for the three months and year ended 2004 has increased over the comparable periods in 2003 because of higher average debt levels. Currently, NuVista's average borrowing rate is approximately 4.0%.

Depreciation, depletion and accretion

Depreciation, depletion and accretion expenses were $19.7 million for the year ended December 31, 2004, or $9.71/boe. This is a 206% increase over $6.0 million or $7.88/boe for the period from July 2, 2003 to December 31, 2003. Depreciation, depletion and accretion expenses were $6.3 million for the fourth quarter of 2004 compared to $2.9 million for the same period in 2003. The average cost per unit was $10.28/boe in the fourth quarter of 2004 versus $7.28/boe for the same period in 2003, due to higher costs of adding reserves, primarily from the acquisition of the private company, in the third quarter, as compared to historic levels.

Income and other taxes

For the year ended December 31, 2004, the provision for income and other taxes was $11.2 million for an effective tax rate of 37.9% versus $3.7 million or 39.5% of net income before taxes for the period from July 2, 2003 to December 31, 2003. For the fourth quarter of 2004, the provision for income and other taxes was $3.1 million for an effective tax rate of 35.2%, as compared to $2.1 million with an effective tax rate of 41.7% for the same period in 2003, resulting primarily from lower statutory income tax rates in 2004.

(thousands)	Year ended December 31, 2004	Period ended December 31, 2003[1]
		(restated)
Future income taxes	$ 10,787	$ 3,558
Large Corporations Tax	396	107
Income and other taxes	$ 11,183	$ 3,665

[1] Period is from July 2, 2003 to December 31, 2003.

Capital expenditures

For the year ended December 31, 2004, capital expenditures were $89.7 million versus $21.0 million for the period from July 2, 2003 to December 31, 2003. In 2004, NuVista spent $46.1 million on one significant acquisition and six property acquisitions in its core areas as opposed to no acquisitions in 2003. As well, in 2004 NuVista participated in 81 wells compared to 40 wells for the period from July 2, 2003 to December 31, 2003. Capital expenditures were $13.8 million during the fourth quarter of 2004 consisting of exploration and development spending of $12.8 million and $1.0 million of net acquisitions compared to $13.1 million for the same period in 2003.

(thousands)	Year ended December 31, 2004	Period ended December 31, 2003[1]
Land and retention costs	$ 8,017	$ 4,017
Seismic	5,957	3,364
Drilling and completion	20,580	10,407
Facilities and equipment	9,099	3,172
Acquisitions	46,135	–
Dispositions	(102)	–
Total capital expenditures	$ 89,686	$ 20,960

[1] Period is from July 2, 2003 to December 31, 2003.

Cash flow and net income

Both cash flow and net income increased in 2004 as a result of stronger commodity prices and increased production rates as NuVista continues to maintain a strong net income to cash flow ratio of 37% for the year ended December 31, 2004 and 38% for the fourth quarter ending December 31, 2004. For the year ended December 31, 2004, NuVista's cash flow was $49.9 million ($1.29 per share, basic) an increase of 219% over $15.6 million ($0.43 per share, basic) for the period from July 2, 2003 to December 31, 2003. For the year ended December 31, 2004 net income was $18.3 million ($0.47 per share, basic) an increase of 226% from $5.6 million ($0.15 per share, basic) for the period from July 2, 2003 to December 31, 2003. In the fourth quarter of 2004, cash flow was $15.2 million ($0.38 per share, basic), an 89% increase over the $8.1 million ($0.22 per share, basic) for the same period in 2003. Net income also increased 99% during the fourth quarter of 2004 to $5.7 million ($0.14 per share, basic) from the $2.9 million ($0.08 per share, basic) for the same period in 2003.

Tax pools

NuVista had $128.6 million of tax pools as at December 31, 2004 available for deduction against future years' taxable income. Based on these tax pools, NuVista does not forecast paying cash income taxes in 2005. The following table summarizes tax pool balances:

(thousands)	Available Balance	Maximum Annual Deduction (%)
Canadian Exploration Expense	$ 5,941	100
Canadian Development Expense	26,381	30
Canadian Oil and Gas Property Expense	62,282	10
Undepreciated Capital Cost	33,395	25
Other	551	20
Total	**$ 128,550**	

Liquidity and capital resources

As at December 31, 2004, total bank debt (net of working capital) was $33.8 million, resulting in a debt to running cash flow ratio of approximately 0.5:1. NuVista has approximately $21.2 million of unused bank borrowing capability at year-end. In the first quarter of 2005, NuVista increased its bank facility to $65 million, which provides substantial flexibility to fund expanded capital programs into the future. The bank loan facility is secured and has a term of one year beyond the next annual review. As at March 21, 2005, there were 40,561,102 common shares and 879,378 Class B Performance Shares outstanding. In addition, there were 1,941,487 stock options outstanding, with an average exercise price of $7.32 per share.

Contractual obligations

NuVista enters into many contractual obligations as part of conducting day-to-day business. Material contract obligations consist only of our Technical Service Agreement with Bonavista. The Technical Services Agreement has no set termination date and will continue until terminated by either party with six months prior written notice. As NuVista continues to spend money as part of its capital program we will draw on our bank facility and will have the related contractual obligation. NuVista has not entered into any material commitments to date.

Annual financial information

The following table highlights selected annual financial information for the years ended December 31, 2004 and for the period from July 2, 2003 to December 31, 2003:

(thousands, except per share amounts)	**Year ended December 31, 2004**	Period ended December 31, 2003[1]
		(restated)
Production revenue	**$ 79,398**	$ 25,758
Net income	**18,322**	5,624
Per share – basic	**0.47**	0.15
Per share – diluted	**0.46**	0.15
Balance sheet information:		
Total assets	**173,531**	94,374
Long-term debt	**28,352**	–
Shareholders' equity	**115,110**	72,017

[1] Period is from July 2, 2003 to December 31, 2003.

Quarterly financial information

The following table highlights NuVista's performance for the quarterly reporting periods from September 30, 2003 to December 31, 2004. NuVista commenced operations on July 2, 2003 through the Plan of Arrangement involving Bonavista:

	2004				2003	
(thousands, except per share amounts)	**December 31**	**September 30**	**June 30**	**March 31**	December 31	September 30
					(restated)	(restated)
Production revenue	**$ 24,601**	**$ 22,020**	**$ 16,982**	**$ 15,795**	$ 13,061	$ 12,697
Net income	**5,715**	**4,335**	**4,540**	**3,732**	2,878	2,746
Net income per share						
Basic	**$ 0.14**	**$ 0.11**	**$ 0.12**	**$ 0.10**	$ 0.08	$ 0.08
Diluted	**0.14**	**0.11**	**0.12**	**0.10**	0.08	0.07

Since its commencement of operations on July 2, 2003, NuVista has seen dramatic growth in its production and revenue over the first six quarters. Coupled with stronger commodity prices, revenues have increased 94% and net income has increased 108% over these six quarters.

Critical accounting estimates

The financial statements have been prepared in accordance with Canadian GAAP. A summary of significant accounting policies are presented in note 1 of the Notes to Consolidated Financial Statements. Certain accounting policies are critical to understanding the financial condition and results of operations of NuVista.

(a) Proven oil and natural gas reserves
Proven oil and natural gas reserves, as defined by the Canadian Securities Administrators in National Instrument 51-101 with reference to the Canadian Oil and 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 proven 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 the Company's development plans. The effect of changes in proven oil and natural gas reserves on the financial results and position of the Company is described below.

(b) Depreciation and depletion expense
NuVista uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proven reserves. Changes in estimated proven reserves or future development costs have a direct impact on depreciation and depletion expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proven reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proven reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any writedown would be charged to depreciation and depletion expense.

(c) Full cost accounting ceiling test
The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proven reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

(d) Asset retirement obligations
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 credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time, with the accretion 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 financial statements could be material.

(e) Income taxes
The determination of the Company's 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.

Update on Regulatory and Financial Reporting Matters

(a) New accounting policies
On January 1, 2004, NuVista retroactively adopted and implemented new accounting policies pursuant to requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook. The new accounting policies adopted included: "Stock-based Compensation and Other Stock-based Payments", "Asset Retirement Obligations" and "Hedge Accounting" and are detailed further in note 2 of the Notes to the Consolidated Financial Statements.

(b) Internal control reporting
Multilateral Instrument 52-111 Reporting on Internal Control over Financial Reporting and 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings set out the key provisions relating to the evaluation, assessment and certification of the internal controls over financial reporting ("ICOFR") by management of NuVista, and the audit by NuVista's external auditors of managements' assessment of ICOFR. The objective of the new rules is to improve the quality and reliability of financial reporting by requiring issuers to evaluate internal control over the preparation of financial statements. The new rules are phased in with final implementation of the evaluation of the effectiveness by management and attestation by the external auditors of ICOFR for financial years ending after June 29, 2006. NuVista is in the process of assessing the priority areas relating to ICOFR and will be in full compliance by the final phase in date.

Assessment of business risks

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

- Operational risk associated with the production of oil and natural gas;
- Reserve risk in respect to the quantity and quality of recoverable reserves;
- Market risk relating to the availability of transportation systems to move the product to market;
- Commodity risk as crude oil and natural gas prices fluctuate due to market forces;
- Financial risk such as volatility of the Canadian/US dollar exchange rate, interest rates and debt service obligations;
- 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 gas industry and the income trust sector; and
- Continued participation of NuVista's lenders.

NuVista seeks to mitigate these risks by:

- Acquiring properties with well 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 hedging program to hedge commodity prices and foreign exchange currency rates 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;
- Carry insurance to cover losses and business interruption; and
- Establishing and maintaining adequate cash resources to fund future abandonment and site restoration costs.

Outlook

NuVista's management remains committed to the same principles and disciplined growth strategy that has led to its considerable success over the first year and a half and the tremendous success of Bonavista as a high growth exploration and production company. In the first quarter of 2005, NuVista increased its employee base to 17, with the establishment of separate technical teams in each of its core areas. These personnel are a combination of former Bonavista employees who had previously worked on the development of NuVista's core areas, as well as several new employees. With the undeveloped land base now exceeding 328,000 net acres, an increased drilling inventory, coupled with our strong balance sheet, NuVista is well positioned to continue posting strong operational and financial results for the first quarter of 2005 and beyond. NuVista will continue to focus on its core strategy of applying the expertise of its own technical staff to its operating regions in a prudent and disciplined manner, through both the drill bit and strategic acquisitions. The execution of these strategies will enable NuVista to continue to grow its production, cash flow and net income consistently and profitably. Furthermore, our solid financial position will enable us to execute our 2005 capital program and remain positioned to pursue additional strategic opportunities as they arise. We remain unwavering in our commitment to enhance shareholder value over the long-term by accessing the broad depth and expertise of our team in a diligent and prudent manner.

For 2005, NuVista's Board of Directors has approved a capital program of $100 million, which is expected to result in production averaging between 8,200 and 8,600 boe/d for the year. Using commodity price estimates of $6.53/gj at AECO for natural gas and US$47.75/bbl WTI for oil, this production forecast should result in cash flow in the range of $70 million to $75 million ($1.70 per share to $1.85 per share) for 2005.

MANAGEMENT'S REPORT

The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in Canada is the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal controls, which are designed to provide reasonable assurance those assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

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

KPMG LLP are independent auditors appointed by NuVista's shareholders. The auditors have considered, for the purposes of determining the nature, timing and extent of their audit procedures, the Company's internal controls and have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the financial statements.

Alex G. Verge
President and Chief Executive Officer
February 24, 2005

Glenn A. Hamilton
Vice President and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of NuVista Energy Ltd. as at December 31, 2004 and 2003 and the consolidated statements of operations and retained earnings and cash flows for the year ended December 31, 2004 and for the period from July 2, 2003 to December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the year ended December 31, 2004 and for the period from July 2, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 24, 2005

CONSOLIDATED BALANCE SHEETS

December 31, (thousands)	2004	2003 (restated)
ASSETS		
Current assets:		
Accounts receivable	$ 12,071	$ 6,251
Oil and natural gas properties and equipment (notes 3, 4 and 5)	152,021	79,959
Goodwill (note 3)	9,439	–
Future tax asset (note 9)	–	8,164
	$ 173,531	$ 94,374
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 17,524	$ 12,402
Bank loan (note 7)	–	6,928
Total current liabilities	17,524	19,330
Bank loan (note 7)	28,352	–
Asset retirement obligations (note 6)	5,990	3,027
Future income taxes (note 9)	6,555	–
Shareholders' equity:		
Share capital (note 8)	89,876	65,932
Contributed surplus (note 8)	1,288	461
Retained earnings	23,946	5,624
	115,110	72,017
	$ 173,531	$ 94,374

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

W. Peter Comber
Director

Pentti O. Karkkainen
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

		Year ended December 31, 2004		Period ended December 31, 2003 [1]
(thousands, except per share amounts)				(restated)
REVENUES				
Production	$	79,398	$	25,758
Royalties, net of Alberta Royalty Tax Credit		(17,701)		(6,079)
Transportation costs		(1,630)		(624)
		60,067		19,055
EXPENSES				
Operating		8,392		2,792
General and administrative		834		268
Interest		574		282
Stock-based compensation		1,035		461
Depreciation, depletion and accretion		19,727		5,963
		30,562		9,766
Income before income and other taxes		29,505		9,289
Income and other taxes (note 9)		11,183		3,665
Net income		18,322		5,624
Retained earnings, beginning of period		5,668		–
Retroactive application of changes in accounting policies (note 2)		(44)		–
Retained earnings, end of period	$	23,946	$	5,624
Net income per share – Basic	$	0.47	$	0.15
Net income per share – Diluted	$	0.46	$	0.15

[1] Period is from July 2, 2003 to December 31, 2003.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands)	Year ended December 31, 2004	Period ended December 31, 2003 [1] (restated)
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net income	$ 18,322	$ 5,624
Items not requiring cash from operations:		
Depreciation, depletion and accretion	19,727	5,963
Stock-based compensation	1,035	461
Future income taxes	10,787	3,558
Funds flow from operations	49,871	15,606
Asset retirement expenditures	(131)	(110)
Decrease (Increase) in non-cash working capital items	(6,801)	106
	42,939	15,602
FINANCING ACTIVITIES		
Issuance (Repurchase) of share capital, net of share issue costs	(24)	17,478
Increase (Decrease) in bank loan	21,424	(18,163)
	21,400	(685)
INVESTING ACTIVITIES		
Business acquisition (note 3)	(22,882)	–
Oil and natural gas properties and equipment	(45,368)	(20,960)
Proceeds on disposal of oil and natural gas properties and equipment	102	–
Decrease in non-cash working capital items	3,809	6,043
	(64,339)	(14,917)
Increase (Decrease) in cash	–	–
Cash, beginning of period	–	–
Cash, end of period	$ –	$ –

[1] Period is from July 2, 2003 to December 31, 2003.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004.

1. Significant accounting policies:

NuVista Energy Ltd. ("NuVista") was established with an effective date of July 2, 2003 under a Plan of Arrangement entered into by Bonavista Energy Trust (the "Trust"), Bonavista Petroleum Ltd. ("Bonavista") and NuVista. Under the Plan of Arrangement, various assets of Bonavista comprising of certain producing and exploration assets were transferred to NuVista. The comparative consolidated financial statements reflect the results of operations for the period from July 2, 2003 to December 31, 2003.

As a determination of many assets, liabilities, revenue and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions, which have been made using careful judgment. In particular, the amounts recorded for depreciation and depletion of oil and natural gas properties and equipment and the provision for asset retirement obligations are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

a) Oil and natural gas properties and equipment:

NuVista follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized in cost centres on a country-by-country basis. Such costs include land acquisitions, drilling, well equipment and geological and geophysical activities. Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion by 20% or more.

Costs capitalized in the cost centres, including well equipment, together with estimated future capital costs associated with proven reserves, are depreciated and depleted using the unit-of-production method which is based on gross production and estimated proven oil and natural gas reserves as determined by independent engineers. The cost of unproven properties is excluded from the depreciation and depletion base. For purposes of the depreciation and depletion calculations, oil and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content, being six thousand cubic feet of natural gas for one barrel of oil. Facilities are depreciated using the declining balance method over their useful lives, which range from 12 to 15 years.

Oil and natural gas properties and equipment are evaluated in each reporting period to determine whether the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre. The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proven reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proven and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs, and are discounted using a risk-free interest rate.

Effective January 1, 2004, NuVista adopted the new accounting standard relating to full cost accounting. The adoption of this new policy resulted in no writedown to the carrying value of oil and natural gas assets. Prior to January 1, 2004 the ceiling test amount was the sum of the undiscounted cash flows expected from the production of proven reserves, the lower of cost or market of unproved properties and the cost of major development projects less estimated future costs for administration, financing, site restoration and income taxes. The cash flows were estimated using period end prices and costs.

b) Joint venture accounting:

A portion of NuVista's oil and natural gas operations is conducted jointly with others. Accordingly, the consolidated financial statements reflect only NuVista's proportionate interest in such activities.

c) Goodwill:

Goodwill is tested for impairment on an annual basis in the fourth quarter. If indications of impairment are present, a loss would be charged to earnings for the amount that the carrying value of goodwill exceeds its fair value.

d) Asset retirement obligations:

NuVista records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability. The impact of the adoption of the new standard is described in note 2.

e) Revenue recognition:

Revenues from the sale of oil and natural gas are recorded when title passes to an external party.

f) Financial instruments:

(i) Hedge relationships:

From time to time, NuVista may use swap agreements or other financial instruments to hedge its exposure to fluctuations in oil and natural gas prices. Gains and losses arising from these swap arrangements are reported as adjustments to the related revenue account over the term of the financial instrument. Financial instruments are not used for speculative purposes. The carrying values of NuVista's monetary assets and liabilities approximate their fair values. The CICA issued Accounting Guideline 13 – Hedging Relationships, which deals with the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. NuVista formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair value or cash flows of the hedged item. These derivative contracts, accounted for as hedges, are not recognized on the balance sheet. Realized gains and losses on these contracts are recognized in petroleum and natural gas revenue and cash flows in the same period in which the revenues associated with the hedged transaction are recognized. Premiums paid or received are deferred and amortized to earnings over the term of the contract.

(ii) Credit risk:

NuVista accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing production to numerous purchasers under normal industry sale and payment terms. NuVista routinely assesses the financial strength of its customers. NuVista may be exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. NuVista mitigates this risk by entering into transactions with highly rated major financial institutions and commodity dealers.

g) **Stock-based compensation:**

NuVista has equity incentive plans, which are described in note 8. These stock-based compensation plans for employees do not involve the direct award of stock, or call for the settlement in cash or other assets. 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. Compensation costs are recognized in the financial statements for the performance shares. NuVista uses the fair value method for valuing stock option grants. 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.

h) **Income taxes:**

NuVista follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statement of NuVista's corporate subsidiaries and their respective tax rates using substantively enacted future income tax rates. The effective change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs. Temporary differences arising on acquisitions result in future tax assets and liabilities.

i) **Per share amounts:**

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

j) **Comparatives figures:**

The comparative figures have been restated to reflect the retroactive changes in accounting policies.

2. Changes in accounting policies:

a) **Asset retirement obligations:**

On January 1, 2004, NuVista adopted the new accounting policies on Asset Retirement Obligations. This change in accounting policy has been applied retroactively with the restatement of the prior period presented for comparative purposes. Previously, NuVista recognized a provision for future site reclamation and abandonment costs calculated on the unit-of-production method over the life of the oil and natural gas properties based on total estimated proven reserves and the estimated future liability.

As a result of this change in accounting policy, net income increased by $313,000 ($481,000, net of a future tax expense of $168,000) or $0.01 per share on a basic and diluted basis for the period from inception on July 2, 2003 to December 31, 2003. The Asset Retirement Obligations increased by $1.7 million, oil and natural gas properties and equipment, net of accumulated depreciation and depletion increased by $3.2 million, future tax asset decreased by $509,000, share capital increased by $642,000 and retained earnings increased by $313,000 as at December 31, 2003.

b) **Stock-based compensation:**

NuVista has retroactively adopted the new accounting standard for stock-based compensation, which requires the use of the fair value method for valuing stock option grants on or after July 2, 2003. 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 the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. NuVista has incorporated an estimated forfeiture rate of 10% for stock options.

As a result of adopting the new accounting standard, net income decreased by $357,000, or $0.01 per share on a basic and diluted basis for the period from July 2, 2003 to December 31, 2003. The completion of this change in accounting policy resulted in an increase of $357,000 to contributed surplus and a decrease of $357,000 to retained earnings as at December 31, 2003.

3. Acquisition of Grid Resources Ltd.:

On July 29, 2004, NuVista acquired all of the issued and outstanding shares of Grid Resources Ltd. ("Grid"), a private oil and natural gas company. NuVista purchased Grid through a series of transactions, which included the disposition of certain non-core assets to a private company and the residual assets being acquired in an existing partnership, owned approximately 76% by NuVista and 24% by Bonavista Petroleum.

The acquisition has been accounted for using the purchase method, with results of operations included from the date of acquisition. The purchase equation, which reflects the NuVista portion of the acquisition, is as follows:

		Amount
(thousands)		
Net assets acquired:		
Oil and natural gas properties	$	44,420
Goodwill		9,439
Natural gas hedge liability		(915)
Asset retirement obligations		(991)
Future income taxes		(3,931)
Net assets acquired	**$**	**48,022**
Purchase consideration:		
Issue of common shares	$	23,760
Cash and assumption of bank loan		22,882
Assumption of working capital deficiency		1,380
Total purchase consideration	**$**	**48,022**

4. Formation and related party transactions:

Under the Plan of Arrangement in July 2, 2003 Bonavista transferred to NuVista certain assets, being certain producing and exploratory oil and natural gas properties in Bonavista's Eastern Region, and an allocation of its bank loan. The producing oil and natural gas properties were transferred into a general partnership that was 70% owned by NuVista and 30% owned by Bonavista. As this was a related party transaction, assets and liabilities were transferred at their book value. Details are as follows:

		Amount
(thousands)		(restated)
Oil and natural gas assets and equipment	$	64,671
Future income tax asset		11,410
Total assets transferred		76,081
Bank loan		(29,103)
Asset retirement obligations		(2,846)
Net assets received and common shares issued	**$**	**44,132**

Under the Plan of Arrangement, NuVista entered into a Technical Services Agreement with Bonavista. Under this agreement, Bonavista receives payment for certain technical and administrative services provided by it to NuVista, on a cost recovery basis. Pursuant to the Technical Services Agreement, there were fees of $1,348,000 charged relating to general and administrative activities and $750,000 of fees were charged relating to capital expenditure activities for the year ended December 31, 2004 (period from July 2, 2003 to December 31, 2003 – $372,000 and $317,000, respectively). As at December 31, 2004, amounts payable to Bonavista were $3.5 million (2003 – $1.7 million).

5. Oil and natural gas properties and equipment:

December 31, 2004	**Cost**	**Accumulated depreciation and depletion**	**Net book value**
(thousands)			
Oil and natural gas properties	**$ 145,616**	**$ 23,170**	**$ 122,446**
Facilities and well equipment	**31,714**	**2,139**	**29,575**
	$ 177,330	**$ 25,309**	**$ 152,021**

December 31, 2003	Cost	Accumulated depreciation and depletion	Net book value
(thousands)		(restated)	
Oil and natural gas properties	$ 68,359	$ 5,363	$ 62,996
Facilities and well equipment	17,478	515	16,963
	$ 85,837	$ 5,878	$ 79,959

Unproved property costs of $15.9 million were excluded from the depreciation and depletion calculation for the year ended December 31, 2004 (period from July 2, 2003 to December 31, 2003 – $10.7 million). Future development costs of $5.3 million (period from July 2, 2003 to December 31, 2003 – $2.8 million) were included in the depreciation and depletion calculation.

NuVista has performed the ceiling test under AcG-16 as of December 31, 2004. The impairment test was calculated using the benchmark reference prices at January 1 for the years 2005 to 2009 and adjusted for commodity differentials specific to NuVista:

Benchmark Reference Price Forecasts:

Year	2005	2006	2007	2008	2009	Thereafter [1]
WTI (US$/bbl)	42.00	40.00	38.00	36.00	34.00	33.00
AECO (Cdn$/mcf)	6.60	6.35	6.15	6.00	6.00	6.00

(1) Constant until 2016 and escalated at 2% per year thereafter.

6. Asset retirement obligations:

NuVista's asset retirement obligations result from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. NuVista estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $31.0 million, which will be incurred over the next 51 years. The majority of the costs will be incurred between 2010 and 2034. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

(thousands)	Year ended December 31, 2004	Period ended December 31, 2003[1]
Balance, beginning of period	$ 3,027	$ 2,846
Accretion expense	295	85
Liabilities incurred	1,808	206
Liabilities acquired	991	–
Liabilities settled	(131)	(110)
Balance, end of period	**$ 5,990**	$ 3,027

(1) Period is from July 2, 2003 to December 31, 2003.

7. Bank loan:

In October 2004, NuVista and its lenders agreed to amend the Company's revolving bank loan facility to increase the maximum borrowing to $55 million. The bank loan facility provides that borrowing 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 loan is secured by a first floating charge debenture, general assignment of book debts and NuVista's oil and natural gas properties and equipment. The facility is subject to an annual review by the lenders, at which time a lender can request conversion to a term loan for one year. Under the term period, no principal payments would be required until June 30, 2006 or later, after the annual review. As such, this loan facility is classified as a long-term liability. Cash paid for the interest expense was $560,000 for the year ended December 31, 2004 (period from July 2, 2003 to December 31, 2003 – $282,000).

8. Share capital:

a) **Authorized:**

Unlimited number of voting Common Shares and 1,200,000 Class B Performance Shares.

b) **Issued:**

(i) Common Shares

(thousands)	Number	Amount
Outstanding, July 2, 2003	2,000	$ 4,000
Issued pursuant to the Plan of Arrangement (note 4)	32,839	44,132
Issued for cash	2,500	18,375
Reacquired and cancelled	(1)	(2)
Costs associated with shares issued, net of future tax benefit	–	(585)
Outstanding, December 31, 2003 (restated)	37,338	65,920
Issued on acquisition of Grid Resources Ltd. (note 3)	3,000	23,760
Conversion of Class B Performance Shares	223	3
Stock-based compensation	–	208
Exercise of stock options	4	25
Reacquired and cancelled	(6)	(15)
Cost associated with shares issued, net of future tax benefit	–	(34)
Outstanding, December 31, 2004	**40,559**	**$ 89,867**

Prior to the Plan of Arrangement, NuVista completed the private placement of 2,000,000 Common Shares and 1,200,000 Class B Performance Shares for gross proceeds of $4,012,000.

(ii) Class B Performance Shares

Each Class B Performance Share was issued for a price of $0.01 per share and is convertible into the fraction of a Common Share equal to the closing trading price of the Common Shares on the Toronto Stock Exchange on the day prior to such conversion less $2.00, if positive, divided by the Common Share closing price. The Class B Performance Shares will automatically convert into Common Shares as to 25% of the Class B Performance Shares outstanding on a pro-rata basis from holders on each of July 1, 2004, 2005, 2006 and 2007. If the NuVista Closing Price less $2.00 is not positive on any conversion date, NuVista will, subject to applicable law, redeem the Class B Performance Shares that would have otherwise been converted at the redemption price of $0.01 per share. The fair value of each Class B Performance Share was $2.41 per share, at date of issuance, using the Black-Scholes model with the variables described in note 8(e). This amount is amortized over the life of the Class B Performance Shares and is included in stock-based compensation expense. Upon conversion or exercise the related charge to stock-based compensation is re-classified into equity.

(thousands)	Number	Amount
Outstanding, July 2, 2003	1,200	$ 12
Reacquired and cancelled	(4)	–
Outstanding, December 31, 2003	1,196	12
Converted to Common Shares	**(297)**	**(3)**
Reacquired and cancelled	**(15)**	**–**
Outstanding, December 31, 2004	**884**	**$ 9**

c) Contributed surplus:

(thousands)	Amount
Balance, July 2, 2003	–
Stock-based compensation	$ 461
Balance, December 31, 2003 (restated)	461
Stock-based compensation	**1,035**
Conversion of Class B Performance shares	**(208)**
Balance, December 31, 2004	**$ 1,288**

d) Per share amounts:

During the year ended December 31, 2004, there were 38,725,401 (period from July 2, 2003 to December 31, 2003 – 36,359,841) weighted average shares outstanding. On a diluted basis, there were 39,897,355 (period from July 2, 2003 to December 31, 2003 – 37,336,785) weighted average shares outstanding after giving effect for dilutive stock options.

e) Stock options:

NuVista has established a stock option plan whereby officers, directors, employees and service providers may be granted options to purchase Common Shares. Options granted vest at the rate of 25% per year and expire two years after the date of vesting to a maximum term of six years. The total stock options outstanding plus the Class B Performance Shares cannot exceed 10% of the outstanding Common Shares.

The summary of stock options transactions for the year ended December 31, 2004 and for the period from July 2, 2003 to December 31, 2003 is as follows:

	2004		2003	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of period	**1,365,300**	**$ 6.35**	–	–
Granted	**381,100**	**8.49**	1,369,800	$ 6.35
Exercised	**(4,013)**	**6.36**	–	–
Cancelled	**(32,350)**	**6.30**	(4,500)	6.30
Outstanding, December 31	**1,710,037**	**$ 6.82**	1,365,300	$ 6.35

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2004:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at year-end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at year-end	Weighted average exercise price
$ 6.30 to $ 7.42	**1,337,037**	**4.5**	**$ 6.35**	**345,812**	**$ 6.35**
$ 7.70 to $ 9.91	**373,000**	**5.0**	**8.49**	**1,000**	**7.88**
	1,710,037		**$ 6.82**	**346,812**	**$ 6.35**

f) Stock-based compensation:

The Company uses the fair value based method for the determination of the stock-based compensation costs. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. In the pricing model, the risk free interest rate was 3.5%; volatility of 25%; and an expected life of 4.5 years and dividends of nil. The weighted average fair value of stock options granted for the year ended December 31, 2004 was $2.12 per share (period from July 2, 2003 to December 31, 2003 – $2.43 per share).

9. Income taxes:

The provision for income tax differs from the result of which would have been obtained by applying the combined Federal and Provincial income tax rate to the income before taxes. This difference results from the following items:

(thousands)	Year ended December 31, 2004	Period ended December 31, 2003[1]
		(restated)
Expected tax rate	**39.0%**	40.6%
Expected tax expense	**$ 11,507**	$ 3,771
Non deductible crown payments, net	**3,753**	1,846
Resource allowance	**(4,197)**	(1,809)
Effect of change in tax rate	**(680)**	(412)
Other	**404**	162
Capital taxes	**396**	107
Provision for income taxes	**$ 11,183**	$ 3,665
The provision for income taxes consists of:		
Current	**$ 396**	$ 107
Future	**10,787**	3,558
Provision for income taxes	**$ 11,183**	$ 3,665

[1] Period is from July 2, 2003 to December 31, 2003.

The significant components of the future income taxes (asset) as at December 31, 2004 and 2003 are:

	2004	2003
(thousands)		(restated)
Oil and natural gas properties	$ 8,196	$ (5,948)
Facilities and well equipment	789	(1,073)
Asset retirement obligations	(2,157)	(1,047)
Share issue costs	(198)	(239)
Other	(75)	143
Future income taxes (asset)	**$ 6,555**	$ (8,164)

Cash income taxes paid for the year ended December 31, 2004 was $125,000 (period from July 2, 2003 to December 31, 2003 – Nil).

10. Hedging activities:

a) **Financial instruments:**

As at December 31, 2004, NuVista has hedged by way of costless collars the following crude oil:

WTI	Average Price (US$/bbl)	Term
250 bbls/d	$ 40.00 – $ 65.00	January 1, 2005 – March 31, 2005
250 bbls/d	$ 40.00 – $ 60.00	April 1, 2005 – June 30, 2005
250 bbls/d	$ 40.00 – $ 55.00	July 1, 2005 – September 30, 2005
250 bbls/d	$ 35.00 – $ 57.25	October 1, 2005 – December 31, 2005

As at December 31, 2004, the market value of these financial instruments was approximately $171,000.

b) **Physical purchase contracts:**

As at December 31, 2004, NuVista has entered into direct sale costless collars to sell natural gas as follows:

AECO	Average Price (Cdn$/gj)	Term
8,300 gj/d	$ 5.78 – $ 9.75	January 1, 2005 – March 31, 2005
10,000 gj/d	$ 6.13 – $ 9.06	April 1, 2005 – October 31, 2005

ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bbls	Barrels
bbls/d	Barrels per day
bcf	Billion cubic feet
boe	Barrel(s) of oil equivalent
boe/d	Barrel(s) of oil equivalent per day
gj	Gigajoule(s)
gj/d	Gigajoule per day
km	Kilometres
mbbls	Thousands of barrels
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
mmboe	Million barrels of oil equivalent
mmbtu	Million British thermal units
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
sq km	Square kilometres
WTI	West Texas Intermediate

Units of natural gas are converted into a barrel of oil equivalent at a ratio of six thousand cubic feet of natural gas to one barrel of oil.

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