## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") of financial conditions and results of operations should be read in conjunction with NuVista Energy Ltd.'s ("NuVista") condensed interim consolidated financial statements for the quarter ended March 31, 2014 and audited consolidated financial statements for the year ended December 31, 2013. The following MD&A of financial condition and results of operations was prepared at and is dated May 13, 2014. Our December 31, 2013 audited consolidated financial statements, Annual Information Form and other disclosure documents for 2013 are available through our filings on SEDAR at **www.sedar.com** or can be obtained from our website at **www.nuvistaenergy.com**.

***Basis of presentation*** *– Unless otherwise noted, the financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") also known as International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The reporting and measurement currency is the Canadian dollar. Natural gas is converted to a barrel of oil equivalent ("Boe") using six thousand cubic feet of gas to one barrel of oil. In certain circumstances natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("Mcfe") on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and Mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value.*

***Advisory regarding forward-looking information and statements*** *– This MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable securities laws. The use of any of the words "will", "expects", "believe", "plans", "potential" and similar expressions are intended to identify forward-looking statements. More particularly and without limitation, this MD&A contains forward looking statements, including management's assessment of: NuVista's future focus, strategy, plans, opportunities and operations; financial risk management strategy; forecast production; production mix; drilling and development plans; NuVista's planned capital budget; the timing, allocation and efficiency of NuVista's capital program and the results therefrom; the anticipated potential and growth opportunities associated with NuVista's asset base; forecast cashflow; anticipated number of wells on production; the source of funding of NuVista's capital program; infrastructure development plans; planned throughput capacity on a new compressor station and the anticipated timing for it to become operational; planned and unplanned facility outages; plans to finance our 2014 capital program; asset retirement obligations and the amount and timing of expenditures relating to such asset retirement obligations and the source of funding thereof; targeted debt levels; expectations regarding future commodity prices, netbacks and price differentials; industry conditions; anticipated accounting changes and the impact on NuVista's operations and financial position. By their nature, forward-looking statements are based upon certain assumptions and are subject to numerous risks and uncertainties, some of which are beyond NuVista's control, including the impact of general economic conditions, industry conditions, current and future commodity prices, currency and interest rates, anticipated production rates, borrowing, operating and other costs and funds from operations, the timing, allocation and amount of capital expenditures and the results therefrom, anticipated reserves and the imprecision of reserve estimates, the performance of existing wells, the success obtained in drilling new wells, the sufficiency of budgeted capital expenditures in carrying out planned activities, competition from other industry participants, availability of qualified personnel or services and drilling and related equipment, stock market volatility, effects of regulation by governmental agencies including changes in environmental regulations, tax laws and royalties; the ability to access sufficient capital from internal sources and bank and equity markets; and including, without limitation, those risks considered under "Risk Factors" in our Annual Information Form. We have included the above summary of assumptions and risks related to forward-looking statements provided in this MD&A in order to provide investors with a more complete perspective on our current and future operations and such information may not be appropriate for other purposes. Readers are cautioned that the assumptions used in the preparation of such information, although* *considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. NuVista's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, or if any of them do so, what benefits NuVista will derive therefrom. NuVista has included the Forward-looking statements in this MD&A in order to provide readers with a more complete perspective on NuVista's future operations and such information may not be appropriate for other purposes. NuVista disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.*

***Non-GAAP measurements** – Within the MD&A, references are made to terms commonly used in the oil and natural gas industry. Management uses funds from operations to analyze operating performance and leverage. Funds from operations as presented, does not have any standardized meaning prescribed by GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, per the statement of cash flows, net earnings (loss) or other measures of financial performance calculated in accordance with GAAP. All references to funds from operations throughout this MD&A are based on cash flow from operating activities before changes in non-cash working capital and asset retirement expenditures. Annualized current quarter funds from operations is calculated as cash flow from operating activities before changes in non-cash working capital and asset retirement expenditures for the current quarter, annualized for the year. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net earnings (loss) per share. Funds from operations netbacks equal total revenues including realized commodity derivative gains/losses less royalties, transportation, operating costs, general and administrative, restricted stock unit, interest expense and cash taxes. Management also uses operating netbacks to analyze operating performance and adjusted working capital to analyze leverage. Adjusted net earnings (loss) is calculated as net earnings (loss) excluding non-recurring or non-cash items that management believes reduces the comparability of the NuVista's financial performance between periods, net of tax. Thereafter tax items include, but are not limited to unrealized gains/losses on commodity derivatives, impairments and impairment reversals, goodwill impairments, gains/losses on divestures and the effect of changes in statutory income tax rate. Total revenue, operating netbacks and adjusted working capital as presented, do not have any standardized meaning prescribed by GAAP and therefore, may not be comparable with the calculation of similar measures for other entities. Total revenue equals revenue including realized commodity derivative gains/losses. Operating netbacks equal the total of revenue including realized commodity derivative gains/losses less royalties, transportation and operating costs. Adjusted working capital equals working capital excluding the current portion of the commodity derivative asset or liability. Net Debt is equal to bank debt net of the adjusted working capital. Total Boe is calculated by multiplying the daily production by the number of days in the period.*

***Description of business*** – NuVista is an oil and natural gas company actively engaged in the exploration for and the development and production of oil and natural gas reserves. NuVista's primary focus is on the scalable and repeatable condensate-rich Montney formation in the Alberta Deep Basin. NuVista also has assets in eastern and northwest Alberta as well as northeast British Columbia. The common shares of NuVista trade on the Toronto Stock Exchange ("TSX") under the symbol NVA.

***2013 Dispositions*** – In December 2013, NuVista sold the majority of its assets in the Saskatchewan and Provost operating area. At the time of sale, production from these assets averaged approximately 2,300 Boe/d. The impact of this disposition has been reflected in the financial statements.

***Operating activities*** – For the three months ended March 31, 2014, NuVista drilled 9 (9 net) wells resulting in 8 (8 net) natural gas wells and 1 (1 net) micro-seismic observation well for an overall success rate of 100%. NuVista operated all of the wells and had an average working interest of 100%. All 9 wells were drilled in Nuvista's Wapiti operating area resulting in 7 Montney natural gas wells, 1 Falher natural gas well and 1 Montney micro-seismic observation well.

***Production***

| | Three months ended March 31 | | |
|---|---|---|---|
| | **2014** | 2013 | % Change |
| Natural gas (Mcf/d) | **70,407** | 55,422 | 27 |
| Condensate (Bbls/d) | **2,803** | 984 | 185 |
| Butane (Bbls/d) | **577** | 368 | 57 |
| Propane (Bbls/d) | **983** | 586 | 68 |
| Ethane (Bbls/d) | **859** | 762 | 13 |
| Oil (Bbls/d) | **866** | 640 | 35 |
| Subtotal (Boe/d) | **17,823** | 12,577 | 42 |
| Dispositions (Boe/d) | **-** | 2,326 | - |
| Total oil equivalent (Boe/d) | **17,823** | 14,903 | 20 |

For the three months ended March 31, 2014, NuVista's average production was 17,823 Boe/d compared to 14,903 Boe/d for the same period in 2013. Oil and liquids weighting in the first quarter of 2014 was 34% compared to 30% for the same period in 2013. 69% of NuVista's production volumes relate to the Wapiti operating area with Wapiti Sweet and Wapiti Montney production accounting for 24% and 45% respectively of total company production. The majority of condensate production is associated with our Wapiti Montney production. Condensate volumes increased by 12% to 2,803 Bbls/d from 2,492 Bbls/d in the fourth quarter of 2013 which represents 16% of total volumes.

The increase in production from the first quarter of 2014 compared to the same period of 2013 was due to strong performance of new and existing Wapiti Montney wells. The production growth from our Wapiti Montney condensate-rich natural gas wells continues to trend upwards and average production increased by 42% and 20% prior to and after the effects of the 2013 Dispositions respectively. Total average production decreased by 1% compared to the fourth quarter of 2013 of 18,034 Boe/d due to the 2013 Dispositions offset by new Montney production.

***Commodity prices***

Benchmark pricing

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2014** | 2013 | % Change |
| Natural gas – AECO (daily) ($/GJ) | **5.42** | 3.03 | 79 |
| Natural gas – AECO (monthly) ($/GJ) | **4.51** | 2.92 | 54 |
| Natural gas – NYMEX (monthly) ($/GJ) | **4.94** | 3.34 | 48 |
| Oil – WTI (US$/Bbl) | **98.68** | 94.37 | 5 |
| Oil – Edmonton Par – (Cdn$/Bbl) | **99.78** | 88.38 | 13 |
| Condensate – (Cdn$/Bbl) | **113.28** | 108.16 | 5 |
| Exchange rate (Cdn$/US$) | **1.1035** | 1.0089 | 9 |

Average selling prices [1]

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2014** | 2013 | % Change |
| Natural gas ($/Mcf) | **4.50** | 3.24 | 39 |
| Condensate ($/Bbl) | **95.29** | 103.28 | (8) |
| Butane ($/Bbl) | **59.54** | 63.19 | (6) |
| Propane ($/Bbl) | **57.46** | 25.07 | 129 |
| Ethane ($/Bbl) | **15.61** | 5.59 | 179 |
| Oil ($/Bbl) | **89.28** | 66.65 | 34 |

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

NuVista markets its natural gas based on a mix of monthly, daily and fixed AECO pricing. NuVista's average selling price for gas in the first quarter of 2014 was $4.50/Mcf compared to $3.24/Mcf for the same period in 2013.

Natural gas liquids ("Liquids") include condensate, butane, propane and ethane and are priced to varying degrees on oil and natural gas prices. Strong demand for condensate in Alberta results in benchmark condensate prices at Edmonton trading at a premium to Canadian light oil prices. NuVista's realized condensate prices include adjustments for pipeline tariffs to Edmonton and quality differentials. Condensate prices averaged $95.29/Bbl in the first quarter down from $103.28/Bbl in the comparative period of 2013 due primarily to a decline in condensate differentials and temporary additional trucking costs. Butane and propane trade at varying discounts to light oil prices depending on market conditions. Ethane prices are highly correlated to natural gas prices.

The price NuVista receives for its oil production is primarily driven by the price of WTI, less a discount to Western Canada for WTI-Edmonton light oil and heavy oil differentials. NuVista's oil production mix was approximately 90% light oil and 10% heavy oil in the first quarter of 2014. NuVista's light oil sales closely match the Edmonton Par price and heavy oil sales closely match the WCS heavy oil benchmark. WTI prices were 5% higher in the first quarter of 2014 compared to the first quarter of 2013. Realized oil prices increased 34% in the first quarter of 2014 compared to the same period of 2013. The first quarter increase in realized prices was due to a combination of higher WTI prices, a weaker Canadian dollar and an increased percentage of light oil versus heavy oil sales compared to 2013.

***Revenues***

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| ($ thousands) | **Natural Gas** | **Condensate** | **Liquids** [2] | **Oil** | **2014 Total** | 2013 Total |
| Revenue [1] | **28,514** | **24,042** | **9,384** | **6,957** | **68,897** | 41,748 |
| Realized gain (loss) on commodity derivatives | **(774)** | **-** | **-** | **(2,926)** | **(3,700)** | (1,258) |
| Total revenue [3] | **27,740** | **24,042** | **9,384** | **4,031** | **65,197** | 40,490 |

(1) Natural gas revenue includes price risk management gains and losses on physical sale contracts. For the three months ended March 31, 2014, our physical sale contracts totaled a $3.1 million loss (2013 – $0.2 million gain).
(2) Incudes butane, propane, and ethane.
(3) Refer to "Non-GAAP measurements".

For the three months ended March 31, 2014, revenues including realized commodity derivative gains and losses were $65.2 million, a 61% increase from $40.5 million for the same period in 2013. The increase in revenues for the three months ended March 31, 2014 compared to the same period of 2013 is due to a 20% increase in production volumes primarily due to increased production from the Wapiti Montney play and a 38% increase in overall realized prices offset by the loss of production as a result of the 2013 Dispositions. Revenues were comprised of $27.7 million of natural gas, $24.0 million of condensate, $9.4 million of liquids and $4.0 million of oil revenue. The increase in average realized commodity prices is comprised of a 39% increase in the natural gas price to $4.50/Mcf from $3.24/Mcf, a 75% increase in the liquids price, excluding condensate to $43.09/Bbl from

$24.66/Bbl, a 8% decrease in the condensate price to $95.29/Bbl from $103.28/Bbl and a 34% increase in the oil price to $89.28/Bbl from $66.65/Bbl.

***Commodity price risk management***

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| ($ thousands) | **2014** | | | 2013 | | |
| | **Realized Gain (Loss)** | **Unrealized Gain (Loss)** | **Total Gain (Loss)** | Realized Gain (Loss) | Unrealized Gain (Loss) | Total Gain (Loss) |
| Natural gas | **(774)** | **(4,177)** | **(4,951)** | (6) | - | (6) |
| Oil | **(2,926)** | **(5,209)** | **(8,135)** | (1,252) | (1,788) | (3,040) |
| Total gain (loss) | **(3,700)** | **(9,386)** | **(13,086)** | (1,258) | (1,788) | (3,046) |

NuVista has a disciplined commodity price risk management program as part of its financial risk management strategy. The purpose of this program is to reduce volatility in financial results, protect acquisition economics and help stabilize cash flow against the unpredictable commodity price environment. NuVista's Board of Directors approved amendments to its price risk management volume limits. The revised limits authorize the use of fixed price, put option and costless collar contracts ("Fixed Price Contracts") for up to 60% for forecast production, net of royalties, for the first twelve month period, up to 50% for the next twelve month period, and up to 40% for the next 12 month period. In addition, the Board of Directors approved limits for entering into natural gas basis differential contracts are the lesser of 50% of forecast natural gas production, net of royalties, or the volumes that would bring the combined natural gas basis differential contracts and natural gas Fixed Price Contracts to 100% of forecast natural gas production, net of royalties.

The revised limits authorize the use of put options for up to 100% for forecast gas production, net of royalties, with certain maximum cost limits for the period of March 1, 2014 to December 31, 2014.

During the first quarter of 2014, the commodity price risk management program resulted in a loss of $13.1 million, consisting of realized losses of $3.7 million and unrealized loss of $9.4 million on natural gas and oil contracts respectively compared to a loss of $1.3 million and $1.8 million for the same period of 2013.

Price risk management losses on our physical sale contracts totaled $3.1 million for the three months ended March 31, 2014. The physical sale contracts are entered into the normal course of business.

(a) Financial instruments

The following is a summary of financial instruments outstanding as at March 31, 2014:

| | **Volume** | **Pricing (Cdn$)** | **Premium (Cdn$)** | **Remaining term** |
|---|---|---|---|---|
| **WTI crude oil contracts** | | | | |
| Fixed price swap | 2,036 Bbls/d | $93.68/Bbl | | Apr 1, 2014 – Jun 30, 2014 |
| Fixed price swap | 2,298 Bbls/d | $94.82/Bbl | | Jul 1, 2014 – Sep 30, 2014 |
| Fixed price swap | 2,681 Bbls/d | $95.78/Bbl | | Oct 1, 2014 – Dec 31, 2014 |
| Fixed price swap | 2,500 Bbls/d | $96.05/Bbl | | Jan 1, 2015 – Mar 31, 2015 |
| Fixed price swap | 1,832 Bbls/d | $97.75/Bbl | | Apr 1, 2015 – Jun 30, 2015 |
| Fixed price swap | 903 Bbls/d | $99.96/Bbl | | Jul 1, 2015 – Sep 30, 2015 |
| Fixed price swap | 385 Bbls/d | $100.36/Bbl | | Oct 1, 2015 – Dec 31, 2015 |
| Put option | 700 Bbls/d | $101.89/Bbl | $6.76/Bbl | Apr 1, 2014 – Jun 30, 2014 |
| Put option | 700 Bbls/d | $101.89/Bbl | $6.76/Bbl | Jul 1, 2014 – Sep 30, 2014 |
| Put option | 500 Bbls/d | $101.30/Bbl | $7.02/Bbl | Oct 1, 2014 – Dec 31, 2014 |

| | Volume | Pricing (US$) | Premium (US$) | Remaining term |
|---|---|---|---|---|
| **NYMEX natural gas contracts** | | | | |
| NYMEX fixed price swap | 3,676 MMbtu/d | $3.90/MMbtu | | Apr 1, 2014 – Jun 30, 2014 |
| NYMEX fixed price swap | 2,000 MMbtu/d | $3.80/MMbtu | | Jul 1, 2014 – Sep 30, 2014 |
| NYMEX fixed price swap | 2,000 MMbtu/d | $3.80/MMbtu | | Oct 1, 2014 – Dec 31, 2014 |
| NYMEX costless collar | 5,000 MMbtu/d | $3.90 -$4.52/MMbtu | | Oct 1, 2014 – Dec 31, 2014 |
| NYMEX put option | 15,000 MMbtu/d | $4.56/MMbtu | $0.33/MMbtu | Apr 1, 2014 – Jun 30, 2014 |
| NYMEX put option | 15,000 MMbtu/d | $4.56/MMbtu | $0.33/MMbtu | Jul 1, 2014 – Sep 30, 2014 |
| NYMEX-AECO basis | 31,703 MMbtu/d | $(0.57)/MMbtu | | Apr 1, 2014 – Jun 30, 2014 |
| NYMEX-AECO basis | 35,000 MMbtu/d | $(0.57)/MMbtu | | Jul 1, 2014 – Sep 30, 2014 |
| NYMEX-AECO basis | 35,000 MMbtu/d | $(0.57)/MMbtu | | Oct 1, 2014 – Dec 31, 2014 |
| NYMEX-AECO basis | 5,000 MMbtu/d | $(0.44)/MMbtu | | Jan 1, 2015 – Mar 31, 2015 |
| NYMEX-AECO basis | 5,000 MMbtu/d | $(0.44)/MMbtu | | Apr 1, 2015 – Jun 30, 2015 |
| NYMEX-AECO basis | 5,000 MMbtu/d | $(0.44)/MMbtu | | Jul 1, 2015 – Sep 30, 2015 |
| NYMEX-AECO basis | 5,000 MMbtu/d | $(0.44)/MMbtu | | Oct 1, 2015 – Dec 31, 2015 |

Subsequent to March 31, 2014, the following financial instruments have been entered into:

| | Volume | Pricing (Cdn $) | Remaining term |
|---|---|---|---|
| **WTI crude oil contracts** | | | |
| Fixed price swap | 100 Bbls/d | $102.15/Bbl | Dec 1, 2014 – Nov 30, 2015 |

(b) Physical purchase and sale contracts

The following is a summary of physical purchase and sale contracts outstanding as at March 31, 2014:

| | Volume | Pricing (Cdn$) | Premium (Cdn$) | Remaining term |
|---|---|---|---|---|
| **AECO natural gas contracts** | | | | |
| Costless collar | 23,000 GJ/d | $3.19/GJ – $3.75/GJ | | Apr 1, 2014 – Jun 30, 2014 |
| Costless collar | 13,033 GJ/d | $3.12/GJ – $3.64/GJ | | Jul 1, 2014 – Sep 30, 2014 |
| Costless collar | 10,000 GJ/d | $3.10/GJ – $3.62/GJ | | Oct 1, 2014 – Dec 31, 2014 |
| Costless collar | 1,722 GJ/d | $3.00/GJ – $3.53/GJ | | Jan 1, 2015 – Mar 31, 2015 |
| Fixed price swap | 14,379 GJ/d | $3.60/GJ | | Apr 1, 2014 – Jun 30, 2014 |
| Fixed price swap | 26,000 GJ/d | $3.54/GJ | | Jul 1, 2014 – Sep 30, 2014 |
| Fixed price swap | 36,799 GJ/d | $3.63/GJ | | Oct 1, 2014 – Dec 31, 2014 |
| Fixed price swap | 42,000 GJ/d | $3.71/GJ | | Jan 1, 2015 – Mar 31, 2015 |
| Fixed price swap | 42,000 GJ/d | $3.71/GJ | | Apr 1, 2015 – Jun 30, 2015 |
| Fixed price swap | 22,000 GJ/d | $3.83/GJ | | Jul 1, 2015 – Sep 30, 2015 |
| Fixed price swap | 11,712 GJ/d | $3.92/GJ | | Oct 1, 2015 – Dec 31, 2015 |
| Put option | 3,297 GJ/d | $4.30/GJ | $0.28/GJ | Apr 1, 2014 – Jun 30, 2014 |

These physical purchase and sale contracts are not considered financial instruments and are being accounted for as they settle.

Subsequent to March 31, 2014, the following physical purchase and sale contracts have been entered into:

| | Volume | Pricing (Cdn$) | Remaining term |
|---|---|---|---|
| **Natural gas contracts** | | | |
| Fixed price swap | 2,000 GJ/d | $4.13/GJ | Jan 1, 2015 – Dec 31, 2015 |

***Royalties***

| (Percentage) | Three months ended March 31, **2014** | 2013 |
|---|---|---|
| Natural gas and liquids | **8** | 9 |
| Oil | **21** | 13 |
| Weighted average rate | **10** | 10 |

For the three months ended March 31, 2014, royalties were $6.6 million, 65% higher than the $4.0 million for the same period of 2013. On a total dollar basis, royalties increased by $2.6 million for the first quarter of 2014 compared to the same period in 2013 due to higher natural gas prices and increased production from the Wapiti Montney play.

Average royalty rates by product for the three months ended March 31, 2014 were 8% for natural gas and liquids and 21% for oil compared to 9% for natural gas and liquids and 13% for oil for the same period in 2013. The increase in 2014 oil royalty rates resulted from the sale of low royalty rate heavy oil wells in Saskatchewan as part of the 2013 Dispositions. NuVista's remaining oil properties incur a significantly higher royalty rate. As a percentage of revenue, the reported average royalty rate for the three months ended March 31, 2014 was 10%, consistent with the comparative period of 2013.

NuVista's physical price risk management activities impact reported royalty rates as royalties are based on government market reference prices and not the Company's average realized prices that include price risk management activities.

***Operating*** – Operating expenses were $17.4 million ($10.87/Boe) for the three months ended March 31, 2014 compared to $16.4 million ($12.20/Boe) for the same period in 2013. For the three months ended March 31, 2014, natural gas and liquids operating expenses averaged $1.74/Mcfe and oil operating expenses were $19.48/Bbl as compared to $1.86/Mcfe and $20.12/Bbl respectively for the same period of 2013. First quarter operating expenses on a total dollar basis increased by 7% compared to the same period of 2013 due to increased production mainly driven from the Wapiti Montney play offset by a decrease in operating costs as a result of the 2013 Dispositions. First quarter operating expenses decreased by 3% compared to the fourth quarter of 2013 of $11.16/Boe as properties associated with the 2013 Dispositions had higher fixed costs.

***Transportation*** – Transportation costs were $1.7 million ($1.03/Boe) for the three months ended March 31, 2014 as compared to $1.3 million ($0.95/Boe) for the same period of 2013. Transportation costs, on a total dollar basis, for the three months ended March 31, 2014 were higher compared to the same period in 2013 due to increased trucking costs associated with increased liquids production from our Wapiti Montney play offset by decreases in transportation costs as a result of the 2013 Dispositions and natural production declines in non-core areas.

***General and administrative***

| ($ thousands, except per unit amounts) | Three months ended March 31, **2014** | 2013 |
|---|---|---|
| Gross general and administrative expenses | **5,570** | 6,194 |
| Overhead recoveries | **(453)** | (1,035) |
| Net general and administrative expenses | **5,117** | 5,159 |
| Per Boe | **3.19** | 3.85 |

General and administrative expenses, net of overhead recoveries, for the three months ended March 31, 2014 were $5.1 million ($3.19/Boe) compared to $5.2 million ($3.85/Boe) in the same period of 2013. General and administrative expenses, net of overhead recoveries, for the first quarter was consistent with same period of 2013 on a total dollar basis and decreased on a per unit basis as a result of increases in production volumes.

***Share-based compensation***

| | Three months ended March 31, | |
|---|---|---|
| ($ thousands) | **2014** | 2013 |
| Stock options | **553** | 1,131 |
| Restricted stock units | **2,606** | 1,145 |
| Restricted share awards | **94** | 160 |
| Total | **3,253** | 2,436 |

NuVista recorded a share-based compensation charge of $3.3 million for the three months ended March 31, 2014 compared to $2.4 million for the same period in 2013. The increase was primarily due to the increase in the value of restricted stock units as a result of an increase in share price offset by a decrease in stock options as a result of increased forfeitures in the period. The share-based compensation charge relates to the amortization of the fair value of stock option awards, restricted share awards and the accrual for future payments under the restricted stock unit incentive plan.

***Interest*** – Interest expense for the three months ended March 31, 2014 was $0.8 million ($0.53/Boe) compared to $0.9 million ($0.65/Boe) for the same period of 2013. For the three months ended March 31, 2014, borrowing costs averaged 3.3% compared to 4.6% in the same period of 2013. Cash paid for interest for the three months ended March 31, 2014 was $0.7 million (March 31, 2013 – $0.6 million).

***Funds from operations*** (1) – For the three months ended March 31, 2014, NuVista's funds from operations were $30.9 million ($0.23/share, basic), a 166% increase from $11.6 million ($0.10/share, basic) for the same period in 2013. Funds from operations for the three months ended March 31, 2014 were significantly higher compared with the same period in 2013 due to increased oil and natural gas prices as well as increased production volumes.

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

| | Three months ended March 31, | |
|---|---|---|
| ($ thousands) | **2014** | 2013 |
| Cash provided by operating activities | **25,246** | 3,176 |
| Add back: | | |
| Asset retirement expenditures | **4,404** | 5,351 |
| Change in non-cash working capital | **1,243** | 3,102 |
| Funds from operations(1) | **30,893** | 11,629 |

(1) Refer to "Non-GAAP measurements".

The table below summarizes operating netbacks by product for the three months ended March 31, 2014:

| ($ thousands, except per unit amounts) | **2014** $ | **2014** $/Boe | 2013 $ | 2013 $/Boe |
|---|---|---|---|---|
| Revenue | **68,897** | **42.95** | 41,748 | 31.13 |
| Realized gain (loss) on commodity derivatives | **(3,700)** | **(2.31)** | (1,258) | (0.94) |
| | **65,197** | **40.64** | 40,490 | 30.19 |
| Royalties | **(6,644)** | **(4.14)** | (4,049) | (3.02) |
| Transportation costs | **(1,651)** | **(1.03)** | (1,271) | (0.95) |
| Operating costs | **(17,443)** | **(10.87)** | (16,370) | (12.20) |
| Operating netback[(1)] | **39,459** | **24.60** | 18,800 | 14.02 |
| General and administrative | **(5,117)** | **(3.19)** | (5,159) | (3.85) |
| Restricted stock units | **(2,606)** | **(1.62)** | (1,145) | (0.85) |
| Interest | **(843)** | **(0.53)** | (867) | (0.65) |
| Funds from operations netback[(1)] | **30,893** | **19.26** | 11,629 | 8.67 |

(1) Refer to "Non-GAAP measurements".

***Depletion, depreciation and amortization***

| ($ thousands, except per unit amounts) | Three months ended March 31, **2014** | 2013 |
|---|---|---|
| Depletion of oil and gas assets | **20,054** | 17,476 |
| Depreciation of fixed assets | **1,593** | 948 |
| Total DD&A | **21,647** | 18,424 |
| DD&A rate per Boe | **13.49** | 13.74 |

Depletion, depreciation and amortization ("DD&A") expenses were $21.6 million for the first quarter of 2014 as compared to $18.4 million for the same period in 2013. The average per unit cost was $13.49/Boe in the first quarter of 2014 as compared to $13.74/Boe for the same period in 2013. DD&A expense for the first quarter of 2014 increased from the same period in 2013 primarily due to increased production volumes for the quarter.

***Asset retirement obligations*** – Asset retirement obligations ("ARO") are based on estimated costs to reclaim and abandon ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. At March 31, 2014, NuVista recorded an ARO of $107.6 million as compared to $106.3 million as at December 31, 2013. The liability was discounted using a risk free discount rate of 3.0% at March 31, 2014 (December 31, 2013 – 3.2%). At March 31, 2014, the estimated total undiscounted amount of cash flow required to settle NuVista's ARO was $179.3 million (December 31, 2013 – $179.1 million). The majority of the costs are expected to be incurred between 2014 and 2032. Actual ARO expenditures for the three months ended March 31, 2014 were $4.4 million (March 31, 2013 – $5.4 million).

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

***Capital expenditures***

| | Three months ended March 31, | |
|---|---|---|
| ($ thousands) | **2014** | 2013 |
| Exploration and development | | |
| Drilling and completion | **66,462** | 43,829 |
| Facilities and equipment | **54,908** | 22,142 |
| Land and retention costs | **3,575** | 1,829 |
| Seismic | **1,431** | 989 |
| Corporate and other | **193** | - |
| Net capital expenditures | **126,569** | 68,789 |

Capital expenditures were $126.6 million during the first quarter of 2014, consisting entirely of exploration and development spending compared to $68.8 million incurred for the same period of 2013 for exploration and development spending. The majority of the capital expenditures in the first quarter were spent on oil and liquids-rich natural gas projects and a new compressor station in the Wapiti area. Facilities costs included $31.9 million for NuVista's new 100% owned compressor station. This compressor station has a planned initial through-put capacity of 40 MMcf/d and is expected to be operational in the second quarter of 2014.

***Income taxes*** – For the three months ended March 31, 2014, the provision for income and other taxes was a benefit of $0.6 million compared to an expense of $0.8 million for the same period in 2013. The increase in benefit for the quarter ended March 31, 2014 compared to 2013 is primarily attributable to the increase in the net loss after adjusting for non-deductible tax items in the period which is offset by the additional flow-through share renunciations in the quarter.

***Net earnings*** – For the three months ended March 31, 2014, net loss totaled $4.4 million ($0.03/share, basic) compared to a net loss of $4.1 million ($0.03/share, basic) for the same period in 2013. The net loss for the three months ended March 31, 2014 is mostly attributable to the realized and unrealized losses on derivatives of $3.7 million and $9.4 million respectively. These losses were offset by increased revenue due to higher realized prices and production as well as a deferred income tax benefit of $0.6 million for the quarter ended March 31, 2014.

***Adjusted net earnings (loss)*** (1) – The table below summarizes adjusted net earnings (loss) for the three months ended March 31, 2014:

| | Three months ended March 31, | |
|---|---|---|
| ($ thousands) | **2014** | 2013 |
| Net earnings (loss) | **(4,358)** | (4,061) |
| Add (deduct): | | |
| Unrealized (gain) loss on commodity derivatives, after tax | **7,025** | 1,338 |
| (Gain) loss on divestitures, after tax | **-** | (5,898) |
| Adjusted net earnings (loss)(1) | **2,667** | (8,621) |
| Per basic share | **0.02** | (0.07) |
| Per diluted share | **0.02** | (0.07) |

(1) Refer to "Non-GAAP measurements".

***Liquidity and capital resources***

| ($ thousands) | **March 31, 2014** | December 31, 2013 |
|---|---|---|
| Common shares outstanding | **135,257** | 134,991 |
| Share price[(1)] | **9.58** | 7.14 |
| Total market capitalization | **1,295,762** | 963,836 |
| Adjusted working capital (surplus) deficit[(2)] | **59,552** | 47,495 |
| Long-term debt | **86,951** | - |
| Debt, net of adjusted working capital (“Net Debt”) | **146,503** | 47,495 |
| Annualized current quarter funds from operations[(2)] | **123,572** | 86,132 |
| Net debt to annualized current quarter funds from operations | **1.2x** | 0.6x |

(1) Represents the closing price on the Toronto Stock Exchange on March 31, 2014 and December 31, 2013.
(2) Refer to the “Non-GAAP measurements”.

As at March 31, 2014, debt net of adjusted working capital was $146.5 million, resulting in a net debt to the annualized current quarter funds from operations ratio of 1.2x. NuVista’s strategy is to target a net debt to annualized current quarter funds from operations of less than 1.5x, while considering other qualitative factors. The actual ratio may fluctuate on a quarterly basis above or below target due to a number of factors including commodity prices and the timing of acquisitions and dispositions. At March 31, 2014, NuVista had an adjusted working capital deficit of $59.6 million. Adjusted working capital is current assets less current liabilities excluding the current portion of the fair value of the commodity derivative liabilities of $8.3 million. We believe it is appropriate to exclude this amount when assessing financial leverage. At March 31, 2014, NuVista had drawn $87.0 million on its credit facility leaving $153 million of unused bank borrowing capacity based on the current committed credit facility of $240 million.

At March 31, 2014 and December 31, 2013, NuVista had a $240 million credit facility with a maximum borrowing amount of $220 million. In April 2014, NuVista’s borrowing base under the credit facility was increased to $240 million. Borrowing under the credit facility may be made by prime loans, bankers’ acceptances and/or US libor advances. These advances bear interest at the bank’s prime rate and/or at money market rates plus a borrowing margin. The credit facility is secured by a first floating charge debenture, general assignment of book debts and the Company’s oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the term period, no principal payments would be required until a year after the revolving period matures or April 27, 2015. As such, the credit facility is classified as long-term.

NuVista plans to monitor its 2014 business plan and adjust its capital program in the context of commodity prices and debt levels. NuVista plans to finance its 2014 capital program with funds from operating activities and available bank lines.

As at March 31, 2014, there were 135.3 million common shares outstanding. In addition, there were 6.6 million stock options with an average exercise price of $7.22 per option, 1.2 million Restricted Stock Units (“RSUs”) and 0.1 million restricted share awards (“RSAs”) outstanding. As of April 30, 2014, there were 135.5 million common shares, 6.3 million options, 1.2 million RSUs and 0.1 million restricted share awards outstanding.

In November 2013, NuVista issued 11.0 million common shares at $7.10 per share for gross proceeds of $78.1 million.

In October 2013, NuVista issued, pursuant to a public offering, 3.2 million common shares on a flow-through basis in respect of Canadian exploration expenses (“CEE”) at a price of $8.00 per share for gross proceeds of $25.6 million. Concurrent with the public offering, the Company also completed a private offering of 0.254 million common shares on a flow-through basis in respect of CEE expenses at a price of $8.00 per share and 1.675 million common shares on a flow-through basis in respect of Canadian development expenses (“CDE”) at a price of $7.20 per share for gross proceeds of $14.1 million. The implied premium on the flow-through common shares was determined to be $6.1 million on the date of issue and was recorded as other liabilities. Under the terms of the flow-through share agreements, the Company is committed to spend approximately $12.1 million on qualifying CDE prior to December 31, 2013 and $27.6 million on qualifying CEE prior to December 31, 2014. As at December 31, 2013, the Company had fully spent the qualifying CDE amount. As at March 31, 2014, NuVista has spent $10.6 million on the qualifying CEE amount.

***Contractual obligations and commitments*** – NuVista enters into contract obligations as part of conducting business. The following is a summary of NuVista's contractual obligations and commitments as at March 31, 2014:

| | **Total** | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter |
|---|---|---|---|---|---|---|---|
| Transportation and processing | **$230,369** | $10,325 | $18,623 | $28,314 | $27,489 | $25,043 | $120,575 |
| Office lease | **13,303** | 2,766 | 3,688 | 3,702 | 3,147 | - | - |
| Flow-through common shares | **17,047** | 17,047 | - | - | - | - | - |
| Total commitments | **$260,719** | $30,138 | $22,311 | $32,016 | $30,636 | $25,043 | $120,575 |

***Off "balance sheet" arrangements*** – NuVista has certain lease arrangements, all of which are reflected in the contractual obligations and commitments table, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease.

***Quarterly financial information*** – The following table highlights NuVista's performance for the eight quarterly reporting periods from June 30, 2012 to March 31, 2014:

| ($ thousands, except | 2014 | 2013 | | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|
| per share amounts) | **Mar 31** | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 |
| Production (Boe/d) | **17,823** | 18,034 | 18,532 | 17,799 | 14,903 | 17,692 | 23,936 | 23,467 |
| Revenue | **68,897** | 57,143 | 60,420 | 54,158 | 41,748 | 48,277 | 61,678 | 58,201 |
| Net earnings (loss) | **(4,358)** | (47,405) | (2,295) | (7,383) | (4,061) | (59,042) | (47,600) | (85,411) |
| Net earnings (loss) | | | | | | | | |
| Per basic share | (0.03) | (0.38) | (0.02) | (0.06) | (0.03) | (0.56) | (0.48) | (0.86) |
| Per diluted share | (0.03) | (0.38) | (0.02) | (0.06) | (0.03) | (0.56) | (0.48) | (0.86) |

NuVista has seen production volumes in a range of 23,936 Boe/d to 14,903 Boe/d for the last eight quarters. Over the prior eight quarters, quarterly revenue has been in a range of $68.9 million to $41.8 million with revenue primarily influenced by production volumes, commodity prices, capital expenditures and property dispositions. Net earnings have been in a range of a net loss of $2.3 million to net loss of $85.4 million with earnings primarily influenced by impairments, gains and losses from disposal of assets, production volumes, commodity prices and realized and unrealized gains and losses on commodity derivatives.

***Critical accounting estimates*** – Management is required to make estimates, judgements, and assumptions in applying its accounting policies which have a significant impact on the financial results of NuVista. These estimates and assumptions are subject to change based on experience and new information. Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate is made. Critical accounting estimates are also those estimates which, where a different estimate could have been used or where changes in the estimate that are reasonably likely to occur, would have a material impact on NuVista's financial condition, changes in financial condition or financial performance. Critical accounting estimates are reviewed annually by the Audit Committee of the Board of Directors. A detailed description of NuVista's critical accounting estimates is provided in the Critical Accounting Estimates section of NuVista's December 31, 2013 annual MD&A.

***Update on regulatory matters***

***Environmental*** – There are no new material environmental initiatives impacting NuVista at this time.

***Update on financial reporting matters***

***Changes in accounting policies***

IFRS Interpretations Committee ("IFRIC") 21, "Levies" is effective January 1, 2014. It clarifies the recognition requirements concerning a liability to pay a levy imposed by a government, other than an income tax. The interpretation clarifies that the obligating event which gives rise to a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. The adoption of this standard does not have a material impact on the NuVista's financial statements.

***Future accounting changes***

The IASB has undertaken a three-phase project, IFRS 9, "Financial Instruments" to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial asset and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of this standard remain in development and the full impact of the standard on NuVista's financial statements will not be known until the evaluation is complete.

IAS 32, "Financial Instruments: Presentation" was amended to provide further criteria on the legal right and intention to offset financial assets and financial liabilities. The Company has adopted the amended IAS 32 in its financial statements for the annual period beginning January 1, 2014. The adoption of this standard does not have any impact on the NuVista's financial statements.

***Disclosure controls and internal controls over financial reporting***

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

The CEO and CFO have also designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of NuVista's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of NuVista; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with GAAP, and that receipts and expenditures of NuVista are being made only in accordance with authorizations of management and directors of NuVista; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of NuVista's assets that could have a material effect on the interim consolidated financial statements. NuVista has designed its internal controls over financial reporting based on the framework in "Internal Control Over Financial Reporting – Guidance for Smaller Public Companies" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992. During the quarter ended March 31, 2014, there have been no changes to NuVista's internal controls over financial reporting that have materially or are reasonably likely to materially affect the internal controls over financial reporting; the CEO and CFO have concluded that the internal controls over financial reporting are effective.

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

***Assessment of business risks***

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

- Operational risk associated with the production of oil and natural gas;
- Reserves risk with respect to the quantity and quality of recoverable reserves;
- Commodity risk as crude oil and natural gas prices and differentials fluctuate due to market forces;
- Financial risk such as volatility of the Cdn/US dollar exchange rate, interest rates and debt service obligations;
- Risk associated with the re-negotiation of NuVista's credit facility and the continued participation of NuVista's lenders;
- Market risk relating to the availability of transportation systems to move the product to market;
- Environmental and safety risk associated with well operations and production facilities;
- Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection relating to the oil and natural gas industry; and
- Labour risks related to availability, productivity and retention of qualified personnel.

NuVista seeks to mitigate these risks by:

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

Information regarding risk factors associated with the business of NuVista and how NuVista seeks to mitigate these risks is contained in our Annual Information Form under the Risk Factors Section for the year ended December 31, 2013.

## OUTLOOK

As a result of our successful first quarter drilling program and favorable commodity pricing through spring breakup thus far, we are modestly increasing our capital spending for 2014 to a range of $300 to $315 million, increasing our expected new well count by three wells including two additional delineation/land expiry locations. Within this range we have also made provisions for an increased land budget and the pre-ordering of long lead facility equipment targeting additional future projects. We currently have 19 Montney wells on production, and we anticipate having approximately 35 total wells on production by the end of 2014. All facets of our Bilbo compressor station and the Keyera Simonette projects are expected to be operational by 2015, and as a result we are increasing our prior guidance from 23,000 to a range of 23,500 to 25,000 Boe/d for 2015.

With corporate netbacks and production rising quickly, and efficiencies continuing to build in every aspect of our Wapiti Montney play, NuVista is confident to continue accelerating the pace of activity in the future. We will continue to work with area midstream companies to provide incremental facility capacity to underpin long-term profitable growth. We would like to thank our shareholders for their continued support, and our dedicated and talented staff for their significant contributions to the bright future we are delivering together.