



# FIRST INTERIM REPORT 2005

Press Release May 5, 2005

Calgary – NuVista Energy Ltd. is pleased to announce its financial and operating results for the three months ended March 31, 2005 as follows:

## Corporate Highlights

	Three Months ended		% Change
	2005	March 31, 2004	
<b>Financial</b>			
(\$ thousands, except per share)			
Production revenue	27,265	15,795	73
Funds from operations <sup>(1)</sup>	16,429	9,599	71
Per share – basic	0.41	0.26	58
Per share – diluted	0.39	0.25	56
Net income	5,585	3,732	50
Per share – basic	0.14	0.10	40
Per share – diluted	0.13	0.10	30
Total assets	205,551	95,602	115
Bank loan, net of working capital	53,730	10,684	403
Shareholders' equity	120,997	76,732	58
Net capital expenditures	36,373	7,174	407
Weighted average common shares outstanding (thousands):			
Basic	40,561	37,335	9
Diluted	42,087	38,515	9
<b>Operating</b>			
(boe conversion – 6:1 basis)			
Production:			
Natural gas (mmcf/d)	32.1	20.9	54
Oil and liquids (bbls/d)	2,007	1,174	71
Total oil equivalent (boe/d)	7,358	4,651	58
Product prices: <sup>(2)</sup>			
Natural gas (\$/mcf)	6.98	6.44	8
Oil and liquids (\$/bbl)	39.25	33.34	18
Operating expenses:			
Natural gas (\$/mcf)	0.73	0.63	16
Oil and liquids (\$/bbl)	6.96	3.91	78
Total oil equivalent (\$/boe)	5.08	3.81	33
General & administrative expenses (\$/boe)	0.46	0.35	31
Cash costs (\$/boe)	6.15	4.31	43
Funds from operations netback (\$/boe) <sup>(1)</sup>	24.81	22.68	9

### NOTES:

- (1) Funds from operations are used before changes in non-cash working capital to analyze operating performance and leverage. Funds from operations does not have a standardized measure prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculations with similar measures for other companies.
- (2) Product prices are before transportation costs.

## MESSAGE TO SHAREHOLDERS

NuVista Energy Ltd. (“NuVista”) is pleased to report to shareholders its financial and operating results for the three months ended March 31, 2005. NuVista has now completed twenty-one months of operations and the Board of Directors and management are very pleased with the results, accomplishments and corresponding value created for its shareholders. The results of the first quarter of 2005 represent the seventh consecutive quarter of continuous profitable growth for NuVista, since its creation on July 2, 2003, through the Plan of Arrangement involving Bonavista Petroleum Ltd. and Bonavista Energy Trust (collectively “Bonavista”).

Significant highlights for NuVista to date in 2005, include:

- Increased employee count to 17 people, establishing a technical team in each of NuVista's Core Areas;
- Increased production by 58% in the first quarter of 2005 to 7,358 boe/d over the first quarter of 2004, with a further increase to the current level of 8,000 boe/d, consisting of 34.4 mmcf/day of natural gas and 2,265 bbls/d of oil and liquids;
- Increased undeveloped land to over 328,000 net acres, further enhancing the drilling prospects to over a year's inventory in its Core Regions;
- Acquired 925 kilometers of 2D and 50.5 square kilometers of 3D seismic to further compliment the prospectivity of NuVista's undeveloped land;
- Participated in 25 (18.0 net) wells in the first quarter of 2005, with an overall success rate of 88%;
- Completed two property acquisitions, which expanded NuVista's prospect inventory in the Provost Area; and
- Continued focus on controllable cash costs resulting in cash costs of \$6.15/boe for the three months ended March 31, 2005, leaving NuVista in the top decile of its industry peers.

Our total capital expenditures for the first quarter of 2005 were \$36.4 million. This is a direct result of an active drilling program coupled with an oil weighted acquisition in the Provost Area which closed in February 2005. Although NuVista was extremely active in January and February, the early spring break up in Alberta curtailed activities for the majority of March where NuVista had planned to drill 12 high working interest locations in the Eastern Region. NuVista has a prospect inventory of over 50 approved locations waiting for the resumption of drilling after break up, and we are adding to this inventory on a weekly basis. With current production levels of 8,000 boe/d, and the largest prospect inventory in our history, NuVista is in a strong position to achieve a production forecast of between 8,200 to 8,600 boe/d for 2005, with the completion of our \$100 million capital program.

## 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 interim consolidated financial statements for the three months ended March 31, 2005 and NuVista's audited consolidated financial statements and MD&A for the year ended December 31, 2004. Our audited consolidated financial statements, current annual information form and other disclosure documents are filed on SEDAR at [www.sedar.com](http://www.sedar.com), and other corporate documentation can be obtained from our website at [www.nuvistaenergy.com](http://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 of oil 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 Management's discussion and analysis, references are made to terms commonly used in the oil and gas industry. Funds from operations and funds from operations per share are not defined by GAAP in Canada and are referred to as non-GAAP measures. Funds from operations is detailed on the Statement of Cash Flows. Funds from operations 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 boe is calculated by multiplying the daily production by the number of days in the year.*

**Operating activities** – During the first quarter of 2005, NuVista participated in 25 wells with an average working interest of 72% and operated 19 of these wells. The success rate of 88% in this drilling program resulted in 17 natural gas wells and five oil wells. Only 10 of the 17 natural gas wells were on-stream prior to break-up. NuVista has commenced its second quarter drilling program, having participated in two wells thus far and expects to have three drilling rigs running by mid-May.

**Production** – For the first quarter of 2005, NuVista's average production was 7,358 boe/d comprised of 32.1 mmcf of natural gas and 2,007 bbls/d of oil and liquids, which represents a 58% increase over the same period of 2004. A portion of NuVista's first quarter natural gas drilling success will not be brought on-stream until the second quarter of 2005.

**Revenues** – For the three months ended March 31, 2005, revenues, before transportation costs were \$27.3 million, a 73% increase from \$15.8 million for the same period of 2004. These revenues were comprised of \$20.2 million of natural gas and \$7.1 million of oil and liquids. The increase in revenues for the three months ended March 31, 2005 versus the same period of 2004 results directly from a 58% increase in production and a 10% increase in commodity prices. The increase in commodity prices, before transportation costs, is made up of an 8% increase in the natural gas price to \$6.98/mcf from \$6.44/mcf and an 18% increase in the oil and liquids price to \$39.25/bbl from \$33.34/bbl.

**Commodity hedging** – 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 hedge 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 first quarter of 2005, our hedging program resulted in a gain of \$51,000. A summary of hedging contracts in place as at March 31, 2005 is outlined in note 4 of the Notes to the Interim Consolidated Financial Statements.

**Royalties** – Royalties of \$6.1 million for the three months ended March 31, 2005 were 51% higher than the \$4.0 million for the same period of 2004. The increase in royalties in the first quarter resulted from higher revenues compared to the same period of 2004, largely generated by higher production volumes and higher commodity prices. As a percentage of revenue, the average royalty rate for the first quarter of 2005 was 22% compared to 26% for the comparative period of 2004. Royalties by product for the first quarter of 2005 were 24% for natural gas and 18% for oil and liquids versus 28% for natural gas and 17% for oil and liquids for the similar period in 2004. The decrease in the natural gas royalty rates results from lower actual natural gas royalties on acquisitions.

**Transportation costs** – Transportation costs were \$665,000 (\$1.00/boe) for the three months ended March 31, 2005 as compared to \$339,000 (\$0.80/boe) for the first quarter of 2004. The 96% increase in transportation costs results from the 58% increase in production volumes and increased natural gas transportation rates in the first quarter of 2005 versus 2004.

**Operating** – Operating expenses were \$3.4 million for the three months ended March 31, 2005 versus \$1.6 million for the same period of 2004, a 109% increase. This increase resulted primarily from the higher production volumes, increased per unit oil operating costs associated with the first quarter 2005 acquisition and higher per unit natural gas operating costs associated with the private company acquisition completed in July 2004. In the first quarter of 2005, natural gas operating expenses averaged \$0.73/mcf and oil and liquids operating expenses were \$6.96/bbl as compared to \$0.63/mcf and \$3.91/bbl respectively for the same period of 2004. On a boe basis, operating costs increased 33% to \$5.08/boe in the first quarter of 2005 as compared to \$3.81/boe for the same period of 2004, primarily due to higher per unit costs of the newly acquired oil assets and increasing cost pressures facing the entire industry. Despite these increases, NuVista remains in the top decile for oil and natural gas companies in its peer group.

**General and administrative** – General and administrative expenses, net of overhead recoveries for the first quarter of 2005, were \$307,000 (\$0.46/boe), an increase of 105% over the \$149,000 (\$0.35/boe) for the three months ended March 31, 2004. This increase is directly attributable to the higher production base in NuVista, hiring of NuVista's own core area teams and the allocation of higher per unit overhead costs, from Bonavista in accordance with the Technical Services Agreement. For the three months ended March 31, 2005, Bonavista charged \$297,000 as compared to \$260,000 in 2004, to NuVista under the Technical Services Agreement. The Technical Services Agreement, entered into as part of the Plan of Arrangement, has allowed NuVista to initiate and continue with its successful and active capital programs, through the use of Bonavista's personnel in managing its operations and at the same time take advantage of Bonavista's low overhead cost structure. NuVista recorded a stock-based compensation charge of \$281,000 for the three months ended March 31, 2005 in connection with the issuance of both the Class B Performance Shares in 2003 and stock options.

**Interest** – Interest expense during the first quarter of 2005 was \$282,000 (\$0.43/boe) versus \$51,000 (\$0.12/boe) for the same period of 2004 due to higher average debt levels, offset by higher production volumes in the first quarter of 2005. Cash paid on interest for the three months ended March 31, 2005 was \$270,000. Currently, NuVista's average borrowing rate is approximately 3.8%.

**Depreciation, depletion and accretion** – Depreciation, depletion and accretion expense was \$7.2 million for the first quarter of 2005 compared to \$3.2 million for the same period in 2004. The average cost per unit was \$10.86/boe in the first quarter of 2005 versus \$7.63/boe for the same period in 2004, due to higher costs of adding reserves, primarily from the acquisition completed in the first quarter of 2005 and in the third quarter of 2004, as compared to historic levels.

**Income and other taxes** – For the first quarter of 2005, the provision for income and other taxes was \$3.5 million for an effective tax rate of 38%, as compared to \$2.4 million with an effective tax rate of 39% for the same period in 2004. The reduction in the effective tax rate results primarily from lower statutory income tax rates in 2005. Cash paid for income and other taxes for the three months ended March 31, 2005 was \$20,000.

**Capital expenditures** – Capital expenditures were \$36.4 million during the first quarter of 2005 consisting of exploration and development spending of \$14.8 million and \$21.6 million of acquisitions versus \$7.2 million, all on exploration and development expenditures in the first quarter of 2004.

**Funds from operations and net income** – In the first quarter of 2005, funds from operations was \$16.4 million (\$0.41/share, basic), a 71% increase over the \$9.6 million (\$0.26/share, basic) for the same period in 2004. Net income also increased 50% during the first quarter of 2005 to \$5.6 million (\$0.14/share, basic) from the \$3.7 million (\$0.10/share, basic) for the same period in 2004.

**Liquidity and capital resources** – As at March 31, 2005, bank debt (including working capital deficiency) was \$53.7 million, resulting in a debt to running cash flow ratio of approximately 0.8 to 1. NuVista has approximately \$11.3 million of unused bank borrowing capability based on the current line of credit of \$65 million, which provides substantial flexibility to fund expanded capital programs into the future. As at May 5, 2005, there were 40,563,215 common shares and 879,378 Class B Performance Shares outstanding. In addition, there were 1,935,947 stock options outstanding, with an average exercise price of \$7.32/share.

**Quarterly financial information** – The following table highlights NuVista's performance for the quarterly reporting periods from September 30, 2003 to March 31, 2005. NuVista commenced operations on July 2, 2003 through the Plan of Arrangement involving Bonavista:

	2005		2004			2003	
	March 31	December 31	September 30	June 30	March 31	December 31	September 30
(thousands, except per share amounts)						(restated)	(restated)
Production revenue	\$ 27,265	\$ 24,601	\$ 22,020	\$ 16,982	\$ 15,795	\$ 13,061	\$ 12,697
Net income	5,585	5,715	4,335	4,540	3,732	2,878	2,746
Net income per share:							
Basic	0.14	0.14	0.11	0.12	0.10	0.08	0.08
Diluted	0.13	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 revenues over its first seven quarters. Coupled with stronger commodity prices, revenues have increased 115% and net income has increased 103% over these seven quarters.

## BUSINESS RISKS AND OUTLOOK

NuVista's management remains committed to the same principles and disciplined growth strategy that has led to its considerable success over its first 21 months. In the first quarter of 2005, NuVista increased its employee base with the establishment of separate technical teams in each of its Core Areas and completed an acquisition, which strengthened our inventory of oil opportunities in Provost. 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 remainder of 2005 and beyond. 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 US\$6.90/mmbtu at Nymex for natural gas and US\$50.00/bbl WTI for oil, this production forecast should result in cash flow in the range of \$75 million to \$80 million (\$1.85/share to \$1.95/share) for 2005.

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 continue execution of 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.

## On Behalf of the Board of Directors



Alex G. Verge  
President and  
Chief Executive Officer

May 5, 2005  
Calgary, Alberta



Glenn A. Hamilton  
Vice President and  
Chief Financial Officer

## Consolidated Balance Sheets

(thousands)

	March 31, 2005	December 31, 2004
	(unaudited)	(audited)
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 13,230	\$ 12,071
Oil and natural gas properties and equipment	182,882	152,021
Goodwill	9,439	9,439
	\$ 205,551	\$ 173,531
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,901	\$ 17,524
Bank loan	50,059	28,352
Asset retirement obligations	7,670	5,990
Future income taxes	9,924	6,555
Shareholders' equity:		
Share capital	89,897	89,876
Contributed surplus	1,569	1,288
Retained earnings	29,531	23,946
	120,997	115,110
	\$ 205,551	\$ 173,531

## Consolidated Statements of Operations and Retained Earnings

(thousands, except per share amounts)

	Three Months ended March 31,	
	2005	2004
(unaudited)		
<b>Revenues:</b>		
Production	\$ 27,265	\$ 15,795
Royalties, net of Alberta Royalty Tax Credit	(6,101)	(4,033)
Transportation costs	(665)	(339)
	20,499	11,423
<b>Expenses:</b>		
Operating	3,367	1,613
General and administrative	307	149
Interest	282	51
Stock-based compensation	281	232
Depreciation, depletion and accretion	7,194	3,230
	11,431	5,275
Income before income and other taxes	9,068	6,148
Income and other taxes	3,483	2,416
<b>Net income</b>	5,585	3,732
Retained earnings, beginning of period	23,946	5,668
Retroactive application of changes in accounting policies	-	(44)
<b>Retained earnings, end of period</b>	\$ 29,531	\$ 9,356
<b>Net income per share – basic</b>	\$ 0.14	\$ 0.10
<b>Net income per share – diluted</b>	\$ 0.13	\$ 0.10

# Consolidated Statements of Cash Flows

(thousands)

Three Months  
ended  
March 31,

2005 2004

(unaudited)

## Cash provided by (used in):

### Operating Activities:

Net income	\$	5,585	\$	3,732
Items not requiring cash from operations:				
Depreciation, depletion and accretion		7,194		3,230
Stock-based compensation		281		232
Future income taxes		3,369		2,405
Funds from operations		16,429		9,599
Asset retirement expenditures		(2)		(23)
Increase in non-cash working capital items		(1,782)		(1,926)
		14,645		7,650

### Financing Activities:

Issue (Repurchase) of share capital		21		(7)
Increase (Decrease) in bank loan		21,707		(469)
		21,728		(476)

### Investing Activities:

Oil and natural gas properties and equipment additions		(36,373)		(7,174)
		(36,373)		(7,174)

Decrease in cash		-		-
Cash, beginning of period		-		-
<b>Cash, end of period</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>

**NUVISTA ENERGY LTD.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended March 31, 2005.

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), using the same accounting policies as those set out in note 1 to the consolidated financial statements for the year ended December 31, 2004. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004. Certain amounts have been reclassified to conform with the current year's presentation.

**1. Asset retirement obligations:**

A reconciliation of the asset retirement obligations is provided below:

	<b>Three Months March 31,</b>	
	<b>2005</b>	<b>2004</b>
(thousands)		
Balance, beginning of period	5,990	2,311
Accretion expense	142	60
Liabilities incurred	188	24
Liabilities acquired	1,352	-
Liabilities settled	(2)	(23)
<b>Balance, end of period</b>	<b>7,670</b>	<b>2,372</b>

**2. Bank loan:**

In March 2005, NuVista and its lenders agreed to amend the Company's bank loan facility to increase the maximum borrowing to \$65 million.

**3. Share capital:**

For the three months ended March 31, 2005, there were 243,000 options granted with an average exercise price of \$10.67/share and an estimated fair value of \$2.67/share. As at March 31, 2005, there were 40,562,540 common shares and 879,378 Class B Performance Shares outstanding. In addition, there were 1,938,649 stock options outstanding, with an average exercise price of \$7.32/share as at March 31, 2005.

**4. Hedging activities:**

a) Financial instruments:

As at March 31, 2005, NuVista has hedged by way of costless collars the following crude oil:

<b>Volume</b>	<b>Average Price</b>	<b>Term</b>
250 bbls/d	US\$40.00 - US\$60.00 – WTI	April 1, 2005 – June 30, 2005
250 bbls/d	US\$40.00 - US\$55.00 – WTI	July 1, 2005 – September 30, 2005
250 bbls/d	US\$35.00 - US\$57.25 – WTI	October 1, 2005 – December 31, 2005
400 bbls/d	CDN\$33.58 – CDN\$41.39 – Bow River	March 1, 2005 – December 31, 2005
250 bbls/d	CDN\$60.00 - CDN\$75.00 – WTI	January 1, 2006 – March 31, 2006

As at March 31, 2005, the market deficiency of these financial instruments was approximately \$354,000.

b) Physical purchase contracts:

As at March 31, 2005, NuVista has entered into direct sale costless collars to sell natural gas as follows:

<b>Volume</b>	<b>Average Price (Cdn \$/gj)</b>	<b>Term</b>
10,000 gj/d	\$ 6.13 - \$ 9.06 – AECO	April 1, 2005 – October 31, 2005
5,000 gj/d	\$ 6.50 - \$ 10.70 – AECO	November 1, 2005 – March 31, 2006

## CORPORATE INFORMATION

### DIRECTORS

**Keith A. MacPhail,**

*Chairman*

**W. Peter Comber,**

*Barrantagh Investment Management Inc.*

**Pentti O. Karkkainen,**

*KERN Partners*

**Ronald J. Poelzer,**

*Bonavista Energy Trust*

**Alex G. Verge,**

*President and CEO*

**Clayton M. Woitas,**

*Profico Energy Management Ltd.*

**Grant A. Zawalsky,**

*Burnet, Duckworth & Palmer LLP*

### MANAGEMENT

**Keith A. MacPhail,**

*Chairman*

**Alex G. Verge,**

*President and CEO*

**Glenn A. Hamilton,**

*Vice President and CFO*

**Steven J. Dalman,**

*Engineering Manager*

**Patrick Miles,**

*Exploration Manager*

**Gordon Timm,**

*Land Manager*

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### AUDITORS

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### BANKERS

*Canadian Imperial Bank of Commerce*

*Bank of Montreal*

*Royal Bank of Canada*

*Toronto-Dominion Bank*

*Calgary, Alberta*

### ENGINEERING CONSULTANTS

*Gilbert Laustsen Jung Associates Ltd.*

*Calgary, Alberta*

### LEGAL COUNSEL

*Burnet, Duckworth & Palmer LLP*

*Calgary, Alberta*

### REGISTRAR AND TRANSFER AGENT

*Valiant Trust Company*

*Calgary, Alberta*

### STOCK EXCHANGE LISTING

*Toronto Stock Exchange*

Trading Symbol "NVA"

- or -

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