

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") of financial conditions and results of operations should be read in conjunction with NuVista Energy Ltd.'s ("NuVista" or the "Company") audited financial statements for the year ended December 31, 2016. The following MD&A of financial condition and results of operations was prepared at and is dated March 7, 2017. Our December 31, 2016 audited financial statements, Annual Information Form and other disclosure documents are available through our filings on SEDAR at [www.sedar.com](http://www.sedar.com) or can be obtained from our website at [www.nuvistaenergy.com](http://www.nuvistaenergy.com) on or before March 30, 2017.

### **Basis of presentation**

*Unless otherwise noted, the financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") also known as International Financial Reporting Standards ("IFRS"). The reporting and measurement currency is the Canadian dollar. Natural gas is converted to a barrel of oil equivalent ("Boe") using six thousand cubic feet of gas to one barrel of oil. In certain circumstances natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("Mcf") on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and Mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value. National Instrument 51-101 - "Standards of Disclosure for Oil and Gas Activities" includes condensate within the product type of natural gas liquids. NuVista has disclosed condensate values separate from natural gas liquids herein as NuVista believes it provides a more accurate description of NuVista's operations and results therefrom.*

### **Advisory regarding forward-looking information and statements**

*This MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable securities laws. The use of any of the words "will", "expects", "believe", "plans", "potential" and similar expressions are intended to identify forward-looking statements. More particularly and without limitation, this MD&A contains forward looking statements, including management's assessment of: NuVista's future focus, strategy, plans, opportunities and operations; financial and commodity risk management strategy; production mix; NuVista's planned capital expenditures; 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; production guidance; the timing of NuVista's next borrowing base review; asset retirement obligations and the amount and timing of such expenditures and the source of funding thereof; the scope, timing and costs of environmental remediation required in connection with the pipeline spill in Northwest Alberta; deferred taxes and NuVista's tax pools; targeted net debt to annualized current quarter funds from operations; environmental compliance costs and the effect of proposed changes to environmental regulation; industry conditions and anticipated accounting changes and their 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, access to infrastructure and markets, competition from other industry participants, availability of qualified personnel or services and drilling and related equipment, stock market volatility, effects of regulation by governmental agencies including changes in environmental regulations, tax laws and royalties; the ability to access sufficient capital from internal sources and bank and equity markets; and including, without limitation, those risks considered under "Risk Factors" in our Annual Information Form. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements.*

*NuVista's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, or if any of them do so, what benefits NuVista will derive therefrom. NuVista has included the forward-looking statements in this MD&A in order to provide readers with a more complete perspective on NuVista's future operations and such information may not be appropriate for other purposes. NuVista disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.*

*This MD&A also contains future-oriented financial information and financial outlook information (collectively, "FOFI") about NuVista's prospective results of operations and funds from operations, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. 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 FOFI and forward-looking statements. NuVista's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and FOFI, or if any of them do so, what benefits NuVista will derive therefrom. NuVista has included the forward-looking statements and FOFI in this press release 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", "funds from operations netback", "net debt", "net debt to annualized current quarter funds from operations", "operating netback", "total revenue" and "adjusted working capital" to analyze operating performance and leverage. These terms do not have any standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other entities. These terms are used by management to analyze operating performance on a comparable basis with prior periods and to analyze the liquidity of NuVista.*

*Funds from operations are based on cash flow from operating activities as per the statement of cash flows before changes in non-cash working capital, asset retirement expenditures, note receivable allowance (recovery) and environmental remediation expenses. 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.*

*Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net loss per share. Total revenue equals oil and natural gas revenues including realized financial derivative gains/losses. Operating netback equals the total of revenues including realized financial derivative gains/losses less royalties, transportation and operating expenses calculated on a Boe basis. Funds from operations netback is operating netback less general and administrative, deferred share units, and interest expenses calculated on a Boe basis. Net debt is calculated as long-term debt plus senior unsecured notes plus adjusted working capital. Adjusted working capital is current assets less current liabilities and excludes the current portions of the financial derivative assets or liabilities, asset retirement obligations and deferred premium on flow through shares. Net debt to annualized current quarter funds from operations is net debt divided by annualized fourth quarter funds from operations.*

## Description of business

NuVista is an exploration and production company actively engaged in the development, delineation and production of condensate, oil and natural gas reserves in the Western Canadian Sedimentary Basin. NuVista's primary focus is on the scalable and repeatable condensate-rich Montney formation in the Alberta Deep Basin ("Wapiti Montney"). The common shares of NuVista trade on the Toronto Stock Exchange ("TSX") under the symbol NVA.

## Drilling activity

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Wells drilled (gross)	6.0	6.0	20.0	19.0
Wells drilled (net)	6.0	6.0	20.0	19.0
Average working interest (%)	100%	100%	100%	100%

For the three months ended December 31, 2016, NuVista drilled 6.0 (6.0 net) natural gas wells with 100% success rate. For the comparable period of 2015, NuVista drilled 6.0 (6.0 net) natural gas wells with a 100.0% success rate.

For the year ended December 31, 2016, NuVista drilled 20.0 (20.0 net) natural gas wells with 100% success rate. For the comparable period of 2015, NuVista drilled 18.0 (18.0 net) natural gas wells and 1.0 (1.0 net) disposal well with a 100.0% success rate. All wells in 2016 and 2015 were drilled in NuVista's Wapiti Montney operating area with an average working interest of 100%.

## Dispositions

NuVista completed various asset dispositions throughout 2015 and 2016 with substantially all of the dispositions being in NuVista's non core operating areas.

During the second quarter of 2016, NuVista disposed of its assets in the Wapiti Sweet operating area with combined production at the time of sale of approximately 3,200 Boe/d. With the disposition of non core properties and capital expenditures in the Wapiti Montney area over the past few years, NuVista's total production is now 96% from the Wapiti Montney.

## Production

	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Natural gas (Mcf/d)	96,692	96,372	—	89,773	92,883	(3)
Condensate & oil (Bbls/d)	7,057	5,400	31	6,764	4,940	37
Butane (Bbls/d)	766	617	24	623	510	22
Propane (Bbls/d)	651	678	(4)	545	582	(6)
Ethane (Bbls/d)	15	577	(97)	12	533	(98)
Subtotal (Boe/d)	24,605	23,334	5	22,907	22,045	4
Dispositions (Boe/d) <sup>(1)</sup>	111	21	429	1,731	363	377
Total production (Boe/d)	24,716	23,355	6	24,638	22,408	10
Condensate, oil & NGLs weighting <sup>(2) &amp; (3)</sup>	35%	31%		34%	30%	
Condensate & oil weighting <sup>(3)</sup>	29%	23%		28%	23%	

<sup>(1)</sup> Production from properties disposed in the current year. Prior period comparatives have not been adjusted. Includes prior production on properties previously disposed.

<sup>(2)</sup> Natural gas liquids ("NGLs") include butane, propane and ethane.

<sup>(3)</sup> Product weighting is based on total production.

## Production by area

	Three months ended December 31, 2016				Three months ended December 31, 2015			
	Natural gas (Mcf/d)	Condensate & oil (Bbls/d)	NGLs (Bbls/d)	Total (Boe/d)	Natural gas (Mcf/d)	Condensate & oil (Bbls/d)	NGLs (Bbls/d)	Total (Boe/d)
Wapiti Montney	91,330	7,015	1,411	<b>23,648</b>	72,367	5,286	1,024	18,371
Non core	5,362	42	21	<b>957</b>	24,005	114	848	4,963
Subtotal	96,692	7,057	1,432	<b>24,605</b>	96,372	5,400	1,872	23,334
Dispositions <sup>(1)</sup>	(358)	201	(30)	<b>111</b>	(13)	21	3	21
Total	96,334	7,258	1,402	<b>24,716</b>	96,359	5,421	1,875	23,355
% of Total	65%	29%	6%		69%	23%	8%	

<sup>(1)</sup> Production from properties disposed in the current year. Prior period comparatives have not been adjusted.

	Year ended December 31, 2016				Year ended December 31, 2015			
	Natural gas (Mcf/d)	Condensate & oil (Bbls/d)	NGLs (Bbls/d)	Total (Boe/d)	Natural gas (Mcf/d)	Condensate & oil (Bbls/d)	NGLs (Bbls/d)	Total (Boe/d)
Wapiti Montney	83,962	6,722	1,161	<b>21,877</b>	68,091	4,602	785	16,735
Non core	5,811	42	19	<b>1,030</b>	24,792	338	840	5,310
Subtotal	89,773	6,764	1,180	<b>22,907</b>	92,883	4,940	1,625	22,045
Dispositions <sup>(1)</sup>	7,248	128	395	<b>1,731</b>	1,426	102	23	363
Total	97,021	6,892	1,575	<b>24,638</b>	94,309	5,042	1,648	22,408
% of Total	66%	28%	6%		70%	23%	7%	

<sup>(1)</sup> Production from properties disposed in the current year. Prior year comparatives have not been adjusted.

## Production weighting by area

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Wapiti Montney	<b>96%</b>	79%	<b>89%</b>	75%
Non core	<b>4%</b>	21%	<b>4%</b>	24%
Dispositions	—%	—%	<b>7%</b>	1%

For the three months ended December 31, 2016, NuVista's average production was 24,716 Boe/d, an increase of 6% from 23,355 Boe/d in the comparative period of 2015 due to the successful Montney drilling program and production with high condensate yields, partially offset by the sale of approximately 3,200 Boe/d of Wapiti Sweet production with low condensate yields that closed in June 2016. Fourth quarter production remained consistent compared to production of 24,898 Boe/d in the third quarter of 2016. Condensate & oil volumes averaged 29% of total production for the quarter.

For the year ended December 31, 2016, NuVista's average production was 24,638 Boe/d, a 10% increase from 22,408 Boe/d in the comparative period of 2015. The increase is a result of the 31% increase in Wapiti Montney production, net of production sold in property dispositions in 2015 and 2016.

## Commodity prices

### Benchmark prices

	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Natural gas - AECO (daily) (\$/GJ)	<b>2.93</b>	2.34	25	<b>2.05</b>	2.55	(20)
Natural gas - AECO (monthly) (\$/GJ)	<b>2.67</b>	2.51	6	<b>1.98</b>	2.62	(24)
Natural gas - NYMEX (monthly) (US\$/MMbtu)	<b>2.98</b>	2.27	31	<b>2.46</b>	2.66	(8)
Natural gas - Chicago Citygate (monthly) (US\$/MMbtu)	<b>3.00</b>	2.46	22	<b>2.49</b>	2.85	(13)
Oil - WTI (US\$/Bbl)	<b>49.29</b>	42.18	17	<b>43.32</b>	48.80	(11)
Oil - Edmonton Par - (Cdn\$/Bbl)	<b>61.60</b>	52.83	17	<b>52.90</b>	57.10	(7)
Condensate - (Cdn\$/Bbl)	<b>64.46</b>	55.55	16	<b>56.18</b>	60.30	(7)
Exchange rate - (Cdn\$/US\$)	<b>1.334</b>	1.335	—	<b>1.326</b>	1.279	4

### Average selling prices <sup>(1) & (2)</sup>

	Three months ended December 31			Year ended December 31		
	2016	2015	% Change	2016	2015	% Change
Natural gas (\$/Mcf)	<b>3.74</b>	3.55	5	<b>3.54</b>	3.64	(3)
Condensate & oil (\$/Bbl)	<b>58.21</b>	45.28	29	<b>49.81</b>	51.34	(3)
Butane (\$/Bbl)	<b>29.28</b>	23.48	25	<b>23.77</b>	26.39	(10)
Propane (\$/Bbl)	<b>7.58</b>	(4.17)	—	<b>(1.03)</b>	(2.92)	—
Ethane (\$/Bbl)	<b>15.14</b>	8.16	86	<b>4.43</b>	8.20	(46)

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

<sup>(2)</sup> The average liquids selling price is net of tariffs and fractionation fees.

NuVista markets its natural gas based on a mix of monthly, daily and fixed AECO pricing. As of December 1, 2015, the Company started selling approximately 20 MMcf/d of its natural gas directly into the Chicago market where it receives a higher US dollar denominated Chicago Citygate price. NuVista's average selling price for natural gas for the three months and year ended December 31, 2016 was \$3.74/Mcf and \$3.54/Mcf respectively, compared to \$3.55/Mcf and \$3.64/Mcf for the comparative periods of 2015, and \$3.37/Mcf in the third quarter of 2016. Excluding the impact of realized gains on physical sales contracts, the average selling price for natural gas for the three months and year ended December 31, 2016 was \$3.25/Mcf and \$2.62/Mcf respectively, compared to \$2.79/Mcf and \$2.95/Mcf for the comparative periods of 2015, and \$2.51/Mcf in the third quarter of 2016.

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 and oil prices averaged \$58.21/Bbl in the fourth quarter, an increase of 29% from \$45.28/Bbl for the comparable period in 2015, consistent with a 17% increase in WTI prices. Butane and propane trade at varying discounts to light oil prices depending on market conditions. Propane prices continue to be impacted as a result of an oversupply in Western Canada. Propane production makes up less than 3% of the Company's total production.

## Revenues

(\$ thousands)	Three months ended December 31				
	Natural gas	Condensate & oil	NGLs <sup>(2)</sup>	2016 Total	2015 Total
Oil and natural gas revenues <sup>(1)</sup>	33,175	38,866	2,497	<b>74,538</b>	55,592
Realized gain (loss) on financial derivatives	(343)	2,656	—	<b>2,313</b>	11,066
<b>Total revenue<sup>(3)</sup></b>	<b>32,832</b>	<b>41,522</b>	<b>2,497</b>	<b>76,851</b>	<b>66,658</b>

<sup>(1)</sup> Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the three months ended December 31, 2016, our physical delivery sales contracts totaled a \$4.3 million gain (2015 – \$6.8 million gain).

<sup>(2)</sup> Includes butane, propane, and ethane.

<sup>(3)</sup> Refer to “Non-GAAP measurements”.

(\$ thousands)	Year ended December 31				
	Natural gas	Condensate & oil	NGLs <sup>(2)</sup>	2016 Total	2015 Total
Oil and natural gas revenues <sup>(1)</sup>	125,591	125,646	6,015	<b>257,252</b>	225,685
Realized gain on financial derivatives	1,652	24,677	—	<b>26,329</b>	42,801
<b>Total revenue<sup>(3)</sup></b>	<b>127,243</b>	<b>150,323</b>	<b>6,015</b>	<b>283,581</b>	<b>268,486</b>

<sup>(1)</sup> Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the year ended December 31, 2016, our physical delivery sales contracts totaled a \$32.6 million gain (2015 – \$23.7 million gain).

<sup>(2)</sup> Includes butane, propane, and ethane.

<sup>(3)</sup> Refer to “Non-GAAP measurements”.

For the three months ended December 31, 2016, oil and natural gas revenues were \$74.5 million, a 34% increase from \$55.6 million for the comparable period of 2015, primarily as a result of a 6% increase in production and a 27% increase in realized prices for the quarter. Oil and natural gas revenues were comprised of \$33.2 million of natural gas revenues, \$38.9 million of condensate and oil revenues, and \$2.5 million of NGL revenues.

For the year ended December 31, 2016, oil and natural gas revenues were \$257.3 million, a 14% increase from \$225.7 million for the comparable period of 2015, primarily as a result of a 10% increase in production and a 3% increase in realized prices. Oil and natural gas revenues were comprised of \$125.6 million of natural gas revenues, \$125.6 million of condensate and oil revenues, and \$6.0 million of NGL revenues.

## Commodity price risk management

(\$ thousands)	Three months ended December 31					
	2016			2015		
	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)
Natural gas	(343)	2,362	2,019	(89)	807	718
Condensate, oil and NGLs	2,656	(13,947)	(11,291)	11,155	318	11,473
Gain (loss) on financial derivatives	2,313	(11,585)	(9,272)	11,066	1,125	12,191

Year ended December 31

(\$ thousands)	2016			2015		
	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)
Natural gas	1,652	4,545	6,197	118	(118)	—
Condensate, oil and NGLs	24,677	(38,072)	(13,395)	42,683	(21,337)	21,346
Gain (loss) on financial derivatives	26,329	(33,527)	(7,198)	42,801	(21,455)	21,346

NuVista has a disciplined commodity price risk management program as part of its financial risk management strategy. The purpose of this program is to reduce volatility in financial results and help stabilize cash flow against the unpredictable commodity price environment. NuVista's Board of Directors has authorized the use of fixed price, put option and costless collar contracts ("Fixed Price Contracts"), and had approved the terms of NuVista's commodity price risk management program to allow the securing of minimum prices of the following:

(% of net forecast after royalty production)	First 18 month forward period	Following 18 month forward period	Following 24 month forward period
Natural Fixed Price Contracts	up to 70%	up to 60%	up to 50%
Crude Oil Fixed Price Contracts	up to 70%	up to 60%	up to 30%

In addition, the Board of Directors approved increased limits for entering into natural gas basis differential contracts that are now 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.

During the fourth quarter of 2016, the commodity price risk management program resulted in a loss of \$9.3 million, consisting of a realized gain of \$2.3 million and an unrealized loss of \$11.6 million on natural gas and oil contracts compared to a gain of \$12.2 million consisting of a realized gain of \$11.1 million and an unrealized gain of \$1.1 million for the comparable period of 2015.

For the year ended December 31, 2016 the commodity price risk management program resulted in a loss of \$7.2 million consisting of a realized gain of \$26.3 million and an unrealized loss of \$33.5 million on natural gas and oil contracts compared to a realized gain of \$42.8 million and unrealized loss of \$21.5 million for the comparative period of 2015. At December 31, 2016, the mark to market value of the financial derivative commodity contracts amounted to a net liability of \$7.8 million consisting of current liabilities of \$8.7 million and long term assets of \$1.0 million.

Price risk management gains on our physical delivery sale contracts totaled \$4.3 million and \$32.6 million for the three months and year ended December 31, 2016 compared to gains of \$6.8 million and \$23.7 million for comparable periods of 2015. The mark to market value of the physical delivery sale contracts at December 31, 2016 was a loss of \$3.1 million; these fair values are not recorded on the financial statements but are recognized in net earnings as settled.

(a) Financial instruments

The following is a summary of the financial derivatives as at December 31, 2016:

	<b>Volume (Bbls/d)</b>	<b>Pricing (Cdn\$/Bbl)</b>	<b>Term of contract</b>
<b>WTI crude oil sales price derivatives</b>			
Fixed price swap	2,700	\$66.92	Jan 1, 2017 - Jun 30, 2017
Fixed price swap	2,600	\$67.25	Jul 1, 2017 - Sep 30, 2017
Fixed price swap	2,800	\$69.37	Oct 1, 2017 - Dec 31, 2017
Fixed price swap	900	\$72.66	Jan 1, 2018 - Dec 31, 2018
Costless Collar	1,950	\$59.86 - 69.33	Jan 1, 2017 - Jun 30, 2017
Costless Collar	1,608	\$60.30 - 69.66	Jul 1, 2017 - Sep 30, 2017
Costless Collar	800	\$62.30 - 71.27	Oct 1, 2017 - Dec 31, 2017

	<b>Volume (MMbtu/d)</b>	<b>Pricing (US\$/MMbtu)</b>	<b>Term of contract</b>
<b>NYMEX natural gas sales price derivatives</b>			
AECO-NYMEX basis	20,000	(\$0.72)	Jan 1, 2017 - Sep 30, 2017
AECO-NYMEX basis	20,000	(\$0.71)	Oct 1, 2017 - Dec 31, 2017
AECO-NYMEX basis	10,000	(\$0.69)	Jan 1, 2018 - Sep 30, 2018
AECO-NYMEX basis	23,261	(\$0.65)	Oct 1, 2018 - Dec 31, 2018
AECO-NYMEX basis	25,000	(\$0.64)	Jan 1, 2019 - Mar 31, 2019
Chicago-NYMEX basis	5,000	(\$0.05)	Jan 1, 2017 - Dec 31, 2017

Subsequent to December 31, 2016 the following is a summary of financial derivatives that have been entered into:

	<b>Volume (Bbls/d)</b>	<b>Pricing (Cdn\$/Bbl)</b>	<b>Term of contract</b>
<b>WTI crude oil sales price derivatives</b>			
Fixed Price Swap	2,100	\$72.18	Oct 1, 2017 - Dec 31, 2017
Fixed Price Swap	2,200	\$72.38	Jan 1, 2018 - Dec 31, 2018

	<b>Volume (MMbtu/d)</b>	<b>Pricing (US\$/MMbtu)</b>	<b>Term of contract</b>
<b>NYMEX natural gas sales price derivatives</b>			
Chicago - NYMEX basis	10,000	(\$0.15)	Jun 1, 2017 - Aug 31, 2017
AECO - NYMEX basis	17,500	(\$0.94)	Jan 1, 2019 - Dec 31, 2022



(b) Physical delivery sales contracts

The following is a summary of the physical delivery sales contracts as at December 31, 2016:

	Volume (GJ/d)	Pricing (Cdn\$/GJ)	Term of contract
<b>AECO natural gas physical delivery sales contracts</b>			
Fixed Price Swap	67,500	\$3.18	Jan 1, 2017 - Mar 31, 2017
Fixed Price Swap	69,203	\$3.10	Apr 1, 2017 - Jun 30, 2017
Fixed Price Swap	69,239	\$3.04	Jul 1, 2017 - Sep 30, 2017
Fixed Price Swap	67,500	\$3.03	Oct 1, 2017 - Dec 31, 2017
Fixed Price Swap	27,500	\$2.77	Jan 1, 2018 - Sep 30, 2018
Fixed Price Swap	19,212	\$2.74	Oct 1, 2018 - Dec 31, 2018

Subsequent to December 31, 2016 the following is a summary of physical delivery sales contracts that have been entered into:

	Volume (GJ/d)	Pricing (Cdn\$/GJ)	Term of contract
<b>AECO natural gas physical delivery sales contracts</b>			
Fixed Price Swap	10,000	\$2.55	Jul 1, 2017 - July 31, 2017
Fixed Price Swap	15,000	\$2.70	Oct 1, 2017 - Sep 30, 2018
Fixed Price Swap	8,370	\$2.72	Oct 1, 2018 - Dec 31, 2018

**Royalties**

(\$ thousands, except % and per Boe amounts)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Gross royalties	3,913	4,268	13,720	15,777
Gas cost allowance ("GCA")	(2,960)	(3,026)	(11,859)	(9,014)
Net royalties	953	1,242	1,861	6,763
Gross royalty % excluding physical delivery sales contracts <sup>(1)</sup>	5.6	8.7	6.1	7.8
Gross royalty % including physical delivery sales contracts	5.2	7.7	5.3	7.0
Net royalties per Boe	0.42	0.58	0.21	0.83

<sup>(1)</sup> Calculated as gross royalties as a % of oil and natural gas revenues excluding gains (losses) on physical delivery sales contracts.

For the three months ended December 31, 2016, gross royalties excluding GCA credits were \$3.9 million, 8% lower than the \$4.3 million for the comparable period of 2015. For the year ended December 31, 2016, gross royalties excluding GCA adjustments were \$13.7 million, 13.0% lower than the \$15.8 million for the comparative period of 2015. On a gross dollar basis, royalties have decreased in 2016 compared to 2015 due to lower commodity prices, increased Montney production and the increased number of wells that qualify for royalty incentive programs, declining high royalty rate production in our non core areas, and dispositions of higher royalty rate assets. Wapiti Montney represents 96% of production and has a historical average gross royalty rate of 6%.

The Company also receives GCA from the Crown, which reduces royalties to account for expenses incurred by NuVista to process and transport the Crown's portion of natural gas production. For the year ended December 31, 2016, the 31.6% increase in GCA credits received is primarily due to GCA credits related to the construction and startup of the Elmworth compressor station in June 2015 and increased production through the Bilbo compressor station throughout 2015 and the first half of 2016.

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.

In 2016, the provincial government of Alberta announced the key highlights of a proposed Modernized Royalty Framework ("MRF") that will be effective on January 1, 2017. These highlights include a permanent structure providing a 5% royalty during the pre-payout period of conventional crude oil, natural gas, and NGL resources, then a higher royalty rate after the payout period. The payout period is governed by a revenue minus cost structure which focuses upon cost reduction and efficiency while staying nearly neutral on the average rate of return for any given play when compared to the prior royalty framework. Mature wells still receive reduced royalties, and there are no changes to the royalty structure of wells drilled prior to 2017 for a 10-year period from the royalty program's implementation date. The changes are not currently expected to have a material impact on NuVista's results of operations.

### **Transportation expenses**

(\$ thousands, except per Boe amounts)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Transportation expense	4,869	2,650	21,119	12,644
Per Boe	2.14	1.23	2.34	1.55

For the three months and year ended December 31, 2016, transportation expenses were \$4.9 million (\$2.14/Boe) and \$21.1 million (\$2.34/Boe) respectively as compared to \$2.7 million (\$1.23/Boe) and \$12.6 million (\$1.55/Boe) for the comparable periods of 2015, and \$5.5 million (\$2.39/Boe) for the three months ended September 30, 2016. Compared to the third quarter, fourth quarter transportation decreased following the unplanned downstream third party outages that occurred in the third quarter which resulted in higher volumes of condensate being temporarily trucked instead of pipelined.

Transportation expenses on a total dollar and per Boe basis increased from the comparable periods in 2015 due to the start of a gas transportation agreement with Alliance Pipeline effective December 1, 2015 to transport gas from Alberta to Chicago. This higher transportation charge is offset by higher gas sales price realizations, and is partially offset by transportation expenses which decreased from the prior year due to an increase in condensate production flowing through a third party liquids pipeline and resulting reduction in trucked volumes of condensate on an annual basis.

### **Operating expenses**

(\$ thousands, except per Boe amounts)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Operating expenses	23,742	23,994	94,821	97,156
Per Boe	10.44	11.17	10.52	11.88

For the three months and year ended December 31, 2016, operating expenses were \$23.7 million (\$10.44/Boe) and \$94.8 million (\$10.52/Boe) respectively, compared to \$24.0 million (\$11.17/Boe) and \$97.2 million (\$11.88/Boe) for the comparable periods of 2015, and \$25.9 million (\$11.31/Boe) for the three months ended September 30, 2016.

Operating expenses for both the three months and year ended December 31, 2016 were lower on a per Boe basis than the comparative periods of 2015 due to increased facility utilization and a decrease in per boe processing costs primarily as a result of the increased number of wells on production with higher condensate yields, and a reduction of costs as compared to the comparative periods in 2015 which had costs associated with the startup of the Elmworth compressor station.

Compared to the prior quarter ended September 30, 2016, operating expenses on a per Boe basis decreased by 8% primarily as a result of decreased take or pay (TOP) commitments and lower processing fees.

### **General and administrative expenses ("G&A")**

(\$ thousands, except per Boe amounts)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Gross G&A expenses	5,147	5,200	22,436	22,931
Overhead recoveries	(68)	(142)	(427)	(580)
Capitalized G&A	(1,018)	(398)	(5,380)	(2,299)
Net G&A expenses	4,061	4,660	16,629	20,052
Gross G&A per Boe	2.26	2.42	2.49	2.80
Net G&A per Boe	1.79	2.17	1.84	2.44

As a result of continued focus on the Wapiti Montney and disposition of non core properties, NuVista has been able to realize greater efficiencies and gross G&A expenses have trended lower. G&A, net of overhead recoveries and capitalized G&A, for the three months and year ended December 31, 2016 was \$4.1 million (\$1.79/Boe) and \$16.6 million (\$1.84/Boe) compared to \$4.7 million (\$2.17/Boe) and \$20.1 million (\$2.44/Boe) for the comparable periods of 2015. Net G&A expenses for the three months and year ended December 31, 2016 on a total dollar basis compared to the prior year comparative periods is lower due to decreased gross G&A expenses and an increase in capitalized G&A expenses as a result of a change in estimated G&A expense related to capital activity. On a per Boe basis, costs have decreased due to the increased production in the period combined with the decrease in net G&A expenses.

### **Share-based compensation expense**

(\$ thousands)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Stock options	721	945	2,651	3,865
Restricted stock units	—	(64)	499	383
Director deferred share units	317	—	751	—
Restricted share awards	326	256	1,183	755
Total	1,364	1,137	5,084	5,003

NuVista recorded a share-based compensation charge of \$1.4 million and \$5.1 million for the three months and year ended December 31, 2016, compared to \$1.1 million and \$5.0 million for the comparable periods in 2015. The share-based compensation charge relates to the amortization of the fair value of stock option awards and restricted share awards ("RSA") and accruals for future payments under the restricted stock unit ("RSU") plan and director deferred share unit ("DSU") plan. The DSU plan was approved by shareholders at NuVista's annual and special meeting in May 2016. The increase in share-based compensation expense for the three months ended December 31, 2016, compared to the comparable period of 2015 is a result of share-based compensation expenses recognized for the new grants under the new DSU plan. During the second quarter of 2016, all outstanding RSUs became fully vested and the balance of the expense was recognized in the period. The December 31, 2016 closing price per share used in the valuation of DSU expense was \$6.94 compared to \$4.07 at December 31, 2015.

## Interest expense

(\$ thousands, except per Boe amounts)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Interest on bank indebtedness	351	1,632	6,161	6,499
Interest on senior unsecured notes	1,861	—	3,899	—
Interest expense	2,212	1,632	10,060	6,499
Per Boe	0.97	0.76	1.12	0.79

Interest expense for the three months ended December 31, 2016 was \$2.2 million (\$0.97/Boe) compared to \$1.6 million (\$0.76/Boe) for the same period of 2015. Interest expense for the three months ended December 31, 2016 increased compared to the same period in 2015 due to interest on the senior unsecured note issued in June 2016. Average borrowing costs on bank indebtedness for the three months and year ended December 31, 2016 were 3.0% and 3.2% respectively, compared to average borrowing costs of 3.0% and 3.2% for the comparable period of 2015.

Interest on the \$70.0 million senior unsecured notes for the three months and year ended December 31, 2016 is for the quarterly interest installment and accrued interest to the end of the period. Interest is accrued on the carrying value at the effective interest rate of 11.0%. The carrying value at December 31, 2016 was \$67.2 million.

## Funds from operations

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

(\$ thousands)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Cash provided by operating activities	52,724	28,585	126,751	111,403
Add back:				
Environmental remediation expense	—	1,300	—	9,300
Asset retirement expenditures	3,185	3,284	10,791	8,839
Note receivable impairment (recovery)	—	5,230	(350)	5,230
Change in non-cash working capital	(15,212)	(5,855)	649	(9,783)
Funds from operations <sup>(1)</sup>	40,697	32,544	137,841	124,989

<sup>(1)</sup> Refer to "Non-GAAP measurements".

The tables below summarize operating netbacks for the three months ended December 31, 2016 and 2015:

(\$ thousands, except per Boe amounts)	Three months ended December 31, 2016		Three months ended December 31, 2015	
	\$	\$/Boe	\$	\$/Boe
Oil and natural gas revenues <sup>(1)</sup>	74,538	32.78	55,592	25.88
Realized gain on financial derivatives	2,313	1.02	11,066	5.15
	<b>76,851</b>	<b>33.80</b>	66,658	31.03
Royalties	(953)	(0.42)	(1,242)	(0.58)
Transportation expenses	(4,869)	(2.14)	(2,650)	(1.23)
Operating expenses	(23,742)	(10.44)	(23,994)	(11.17)
Operating netback <sup>(2)</sup>	<b>47,287</b>	<b>20.80</b>	38,772	18.05
General and administrative	(4,061)	(1.79)	(4,660)	(2.17)
Restricted stock units & deferred share units	(317)	(0.14)	64	0.03
Interest expense	(2,212)	(0.97)	(1,632)	(0.76)
Funds from operations netback <sup>(2)</sup>	<b>40,697</b>	<b>17.90</b>	32,544	15.15

<sup>(1)</sup> Includes price risk management gains of \$4.3 million (2015 - \$6.8 million gain) on physical delivery sales contracts.

<sup>(2)</sup> Refer to "Non-GAAP measurements".

The tables below summarize operating netbacks for the year ended December 31, 2016 and 2015:

(\$ thousands, except per Boe amounts)	Year ended December 31, 2016		Year ended December 31, 2015	
	\$	\$/Boe	\$	\$/Boe
Oil and natural gas revenues <sup>(1)</sup>	257,252	28.53	225,685	27.59
Realized gain on financial derivatives	26,329	2.92	42,801	5.23
	<b>283,581</b>	<b>31.45</b>	268,486	32.82
Royalties	(1,861)	(0.21)	(6,763)	(0.83)
Transportation expenses	(21,119)	(2.34)	(12,644)	(1.55)
Operating expenses	(94,821)	(10.52)	(97,156)	(11.88)
Operating netback <sup>(2)</sup>	<b>165,780</b>	<b>18.38</b>	151,923	18.56
General and administrative	(16,629)	(1.84)	(20,052)	(2.44)
Restricted stock units & deferred share units	(1,250)	(0.14)	(383)	(0.05)
Interest expense	(10,060)	(1.12)	(6,499)	(0.79)
Funds from operations netback <sup>(2)</sup>	<b>137,841</b>	<b>15.28</b>	124,989	15.28

<sup>(1)</sup> Includes price risk management gains of \$32.6 million (2015 - \$23.7 million gain) on physical delivery sales contracts.

<sup>(2)</sup> Refer to "Non-GAAP measurements".

For the three months ended December 31, 2016, NuVista's funds from operations were \$40.7 million (\$0.24/share, basic), compared to \$32.5 million (\$0.21/share, basic) for the comparable period of 2015 and \$31.2 million (\$0.20/share, basic) in the third quarter of 2016. The increased funds from operations in the fourth quarter were as a result of higher realized commodity pricing, increased production and lower expenses, offset by lower realized gains from the financial and physical commodity risk management program as a result of the increased commodity pricing.

For the year ended December 31, 2016, funds from operations were \$137.8 million (\$0.87/share, basic) compared to \$125.0 million (\$0.84/share, basic) for the comparable period of 2015. Funds from operations were higher than the comparable period of 2015 primarily due to higher production levels, lower royalty, operating and general and administrative costs, offset by lower realized gains, and higher transportation and interest expenses.

### **Environmental remediation expense**

During the third quarter of 2015, NuVista identified a leak in a remote pipeline carrying oil emulsion in its non core area of Northwest Alberta. The pipeline was immediately shut down and NuVista's emergency response plan was activated. In cooperation with local governmental regulators, first nation bands and with the assistance of qualified consultants, NuVista immediately commenced remediation and restoration activities. The Company's insurers have been notified and are currently evaluating to determine if this is an insurable event. The Company recorded \$9.3 million in environmental remediation expense in the December 31, 2015 financial statements which is the current best estimate of the total cost of remediation. To date, the majority of the cleanup has been completed. \$8.5 million has been spent with \$0.8 million remaining as accrued environmental remediation liabilities. It is anticipated that the majority of the remaining remediation will occur in 2017.

The provision for accrued environmental remediation liability contains significant estimates and judgments about the scope, timing and costs of the work that will be required. The assumptions and estimates used are based on current information and are subject to revision in the future as further information becomes available to the Company.

### **Depletion, depreciation, amortization and impairment ("DD&A")**

(\$ thousands, except per Boe amounts)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Depletion of oil and gas assets	22,102	76,264	84,321	147,772
Depreciation of fixed assets	3,339	4,131	14,562	13,129
DD&A expense	25,441	80,395	98,883	160,901
DD&A rate per Boe	11.19	37.42	10.97	19.67
Property, plant and equipment impairment expense	—	8,958	—	74,399
Exploration and evaluation ("E&E") impairment expense	2,089	—	2,089	6,788
Total Impairment expense	2,089	8,958	2,089	81,187
Total DD&A and impairment expense	27,530	89,353	100,972	242,088

DD&A expense for three months and year ended December 31, 2016 was \$25.4 million (\$11.19/Boe) and \$98.9 million (\$10.97/Boe) compared to \$80.4 million (\$37.42/Boe) and \$160.9 million (\$19.67/Boe) for the comparable periods of 2015, and \$25.9 million (\$11.32/Boe) in the third quarter of 2016.

The Wapiti Montney DD&A rate per Boe for three months and year ended December 31, 2016 was \$10.82/Boe and \$11.21/Boe compared to \$11.26/Boe and \$13.08/Boe for the comparable periods of 2015, and \$11.31/Boe in the third quarter of 2016.

During the year ended December 31, 2016, there were no indicators of impairment or reversal of impairment identified on any of the Company's CGU's within property, plant & equipment.

At December 31, 2016, there were indicators of impairment in NuVista's Shallow Gas Alberta cash generating unit ("CGU") that the carrying amount of E&E assets is not likely to be recovered and an impairment test was performed on this CGU. E&E assets were evaluated by comparing carrying amounts to the fair value less costs to sell based on trailing twelve month land sales prices in the areas in which the Company owns undeveloped land. The impairment tests resulted in an impairment charge totaling \$2.1 million in the Shallow Gas Alberta CGU. This charge has been included in depletion, depreciation, amortization and impairment expense. At December 31, 2016, there were no indicators of impairment in NuVista's remaining E&E assets therefore an impairment test was not performed.

During the year ended December 31, 2015, there were indicators of impairment identified in all of NuVista's CGUs as a result of significant and sustained declines in the forward commodity prices for oil and natural gas. An impairment test was performed on property, plant and equipment assets. For the December 31, 2015 test, property, plant and equipment was assessed based on the recoverable amount estimated using a value in use calculation based on expected future cash flows generated from proved and probable reserves using a pre-tax discount rate ranging from 12% to 15%, based on the independent external reserves report. For the year ended December 31, 2015, total impairment charges of \$74.4 million were recognized in the Shallow Gas Alberta, Deep Gas and Oil CGUs and have been included in the depletion, depreciation, amortization and impairment expense. Included in the above is \$10 million of impairment from second quarter 2015 as a result of Shallow Gas Alberta CGU assets transferred to assets held for sale, and subsequently disposed.

At September 30, 2015, there were indicators of impairment in some of NuVista's CGUs that the carrying amount of E&E is not likely to be recovered and an impairment test was performed on E&E. E&E assets were evaluated by comparing carrying amounts to the fair value less costs to sell based on trailing twelve month land sales prices in the areas in which the Company owns undeveloped land. The impairment test resulted in an impairment charge totaling \$6.8 million in the Shallow Gas Alberta, Deep Gas and Oil CGUs. This charge has been included in depletion, depreciation, amortization and impairment expense. At December 31, 2015, there were no indicators of impairment in NuVista's remaining E&E assets therefore an impairment test was not performed.

In June 2015, the Company signed an agreement to dispose of certain non core natural gas properties in the Kirkwall area held within the Company's Shallow Gas CGU. At June 30, 2015 these properties were classified as assets held for sale as it was highly probable that their carrying value would be received through a sales transaction rather than through continuing use. An impairment test was performed on the entire CGU, however, did not result in an impairment expense for this CGU. The recoverable amount was estimated using a value in use calculation based on expected future cash flows generated from proved and probable reserves using a pre-tax discount rate of 15%, based on an internal reserves report. Subsequent to the impairment test, the carrying amount of the specific property, plant and equipment was transferred to assets held for sale and were measured at fair value less cost to sell, resulting in an impairment expense of \$10.0 million. During the third quarter of 2015, these assets were disposed of for cash proceeds of \$3.8 million.

### ***Exploration and evaluation***

Exploration and evaluation expense for both the three months and year ended December 31, 2016 was \$0.5 million and \$0.8 million compared to \$0.2 million and \$2.9 million respectively in the comparable period of 2015. Exploration and evaluation expense relates to land expiries of assets held as exploration and evaluation assets.

### ***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 December 31, 2016, NuVista has an ARO balance of \$75.5 million as compared to \$101.8 million as at December 31, 2015. The liability was discounted using a risk free discount rate of 2.3% at December 31, 2016 (December 31, 2015 – 2.2%). At December 31, 2016, the estimated total undiscounted amount of cash flow required to settle NuVista's ARO was \$128.8 million (December 31, 2015 – \$150.8 million). The majority of the costs are expected to be incurred between 2017 and 2037. The decrease in ARO in the year ended December 31, 2016 is primarily a result of the disposition of Wapiti Sweet assets in the second quarter of 2016, in addition to NuVista's ongoing abandonment program. Actual ARO expenditures for the three months and year ended December 31, 2016 were \$3.2 million and \$10.8 million respectively compared to \$3.3 million and \$8.8 million for the comparable periods of 2015.

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

(\$ thousands)	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Exploration and evaluation assets and property plant and equipment				
Land and retention costs	73	83	718	1,097
Geological and geophysical	835	1,096	5,377	9,737
Drilling and completion	43,107	38,245	141,665	168,902
Facilities and equipment	11,583	12,841	41,074	93,295
Corporate and other	187	13	227	211
Capital expenditures	55,785	52,278	189,061	273,242

Capital expenditures for the three months and year ended December 31, 2016 were \$55.8 million and \$189.1 million respectively, 7% higher and 31% lower than the \$52.3 million and \$273.2 million for the comparative periods of 2015.

The majority of capital expenditures in the fourth quarter of 2016 was \$43.1 million (77%) relating to drilling and completion and \$11.6 million (21%) on facility and equipment, primarily related to bringing wells on production. Substantially all capital expenditures in 2016 were spent on liquids-rich natural gas projects in our Wapiti Montney core area. Capital expenditures for the three months ended December 31, 2016 are higher than the comparable period of 2015 primarily due to the carryover of third quarter projects as a result of wet weather delaying drilling, completion and tie-in projects.

Capital expenditures for the year ended December 31, 2016 are lower than the comparative period of 2015 as a result of reduced industry service costs and improved drilling and completion methods, as well as the construction of a compressor station at Elsworth within the Wapiti Montney core area during the second quarter of 2015. This compressor station was brought on line in June 2015 with ultimate through-put capacity of 80 MMcf/d of raw gas and 4,000 Bbls/d of condensate.

## Acquisitions and dispositions

For the three months and year ended December 31, 2016, there were undeveloped land acquisitions of \$nil and \$1.0 million compared to \$5.7 million and \$6.3 million in the comparative periods of 2015.

For the three months ended December 31, 2016, total proceeds from non core property dispositions was \$2.1 million, resulting in a gain on dispositions of \$1.4 million. For the comparable period of 2015, NuVista sold minor assets for proceeds of \$12.9 million, resulting in a loss on dispositions of \$4.9 million.

For the year ended December 31, 2016, total proceeds from the sale of assets in in the Wapiti Sweet operating area as well as various non core property dispositions were \$76.0 million, compared to \$26.9 million in the comparable period of 2015.

## Note receivable allowance (recovery)

In December 2013, NuVista disposed of assets in a non core operating area for cash proceeds and a \$5.0 million note receivable, payable in 3 years with yearly interest payment terms. NuVista recognized a valuation allowance of \$5.2 million at December 31, 2015, valuing the note receivable at nil as a result of uncertainty on collection from the counterparty. In the first quarter of 2016, NuVista agreed to and collected a settlement amount of \$0.4 million from the counterparty.



### **Income taxes**

For the three months and year ended December 31, 2016, the provision for income taxes were \$nil and a benefit of \$1.6 million compared to an expense of \$nil and \$6.9 million for the comparable periods of 2015. The Company derecognized its deferred income tax asset of \$9.4 million to \$nil during the third quarter of 2015 with no change for December 31, 2015 and December 31, 2016, as a result of projected future cash flows at the current commodity prices forecasts being less than the Company's total tax pools.

### **Net earnings (loss)**

For the three months ended December 31, 2016, net earnings totaled \$1.1 million (\$0.01/share, basic) compared to a net loss of \$69.1 million (\$0.45/share, basic) for the comparable period in 2015. For the year ended, December 31, 2016, net loss totaled \$1.7 million (\$0.01/share, basic) compared to a net loss of \$172.9 million (\$1.16/share, basic) for the comparable period of 2015. The decrease in net loss for the current period is primarily a result of increased production and commodity pricing and lower DD&A expense, offset by lower hedging gains and higher unrealized loss on financial derivatives.

### **Liquidity and capital resources**

On June 22, 2016, the Company issued \$70 million of 9.875% senior unsecured notes ("Notes") with a 5 year term by way of private placement. Proceeds net of discount and costs amounted to \$66.9 million. Interest is payable in equal quarterly installments in arrears. The Notes are fully and unconditionally guaranteed as to the payment of principal and interest, on a senior unsecured basis by the Company. There are no maintenance financial covenants.

The Notes are non callable by the Company prior to the two and a half year anniversary of the closing date. At any time on or after December 22, 2018, the Company may redeem all or part of the Notes at the redemption prices set forth in the table below plus any accrued and unpaid interest:

12 month period ended:	Percentage
December 22, 2019	104.938%
December 22, 2020	102.469%
December 22, 2021	100.000%

If a change of control occurs at any time prior to June 22, 2017, each holder of the Notes will have the right to require the Company to purchase all or any part of that holder's Notes for an amount in cash equal to 110% of the aggregate principal repurchased plus accrued and unpaid interest. If a change of control occurs after June 22, 2017, each holder of Notes will have the right to require the Company to purchase all or any part of that holder's Notes for an amount in cash equal to 101% of the aggregate principal repurchased plus accrued and unpaid interest.

In June 2016, NuVista completed the annual review of its borrowing base with its lenders and the lenders approved a revolving extendible credit facility with a maximum borrowing base of \$200.0 million, a reduction from \$300.0 million, primarily as a result of the impact of a lower commodity price outlook, the Wapiti Sweet asset disposition, and the impact of the Notes. Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin. The credit facility is secured by a first floating charge debenture, general assignment of book debts and NuVista's oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a review of the maximum borrowing amount occurs semi-annually on October 31 and April 30. During the term period, no principal payments would be required until a year after the revolving period matures. As such, the credit facility is classified as long-term. The credit facility does not contain any financial covenants but NuVista is subject to various industry standard non-financial covenants. Compliance with these covenants is monitored on a regular basis and as at December 31, 2016, NuVista was in compliance with all covenants.

The semi annual review was completed in the fourth quarter with no changes to the amount or terms of the credit facility. The next review is schedule for on or before April 29, 2017.

In October 2016, the Company entered into a bought deal equity financing in which the Company issued 15.1 million common shares at \$6.85 per share, for gross proceeds of \$103.5 million.

In June 2016, pursuant to a private placement, the Company issued 3.3 million common shares on a flow-through basis in respect of Canadian Development expenses ("CDE") at a price of \$6.65 per share for gross proceeds of \$21.6 million. Under the terms of the flow-through share agreements, the Company is committed to spend \$21.6 million on qualifying CDE prior to December 31, 2016. NuVista has fulfilled its commitment to spend \$21.6 million on qualifying CDE.

The following is a summary of net debt to annualized current quarter funds from operations at December 31, 2016:

(\$ thousands)	December 31, 2016	December 31, 2015
Common shares outstanding	172,746	153,310
Share price <sup>(1)</sup>	6.94	4.07
Total market capitalization	1,198,857	623,972
Adjusted working capital deficit <sup>(2)</sup>	15,536	23,892
Senior unsecured notes	67,156	—
Long-term debt	—	196,733
Debt, net of adjusted working capital ("Net debt")	82,692	220,625
Annualized current quarter funds from operations <sup>(2)</sup>	162,788	130,176
Net debt to annualized current quarter funds from operations <sup>(2)</sup>	0.5	1.7

<sup>(1)</sup> Represents the closing price on the Toronto Stock Exchange on December 31, 2016 and December 31, 2015 .

<sup>(2)</sup> Refer to the "Non-GAAP measurements".

As at December 31, 2016, net debt was \$82.7 million, resulting in a net debt to annualized current quarter funds from operations ratio of 0.5x. NuVista's long term strategy is to maintain a net debt to annualized current quarter funds from operations ratio of less than 1.5x. However, in periods of volatile and lower commodity prices, NuVista is willing to work to target a net debt to annualized current quarter funds from operations ratio of around 2x. The actual ratio may fluctuate on a quarterly basis above or below target due to a number of factors including facility outages, commodity prices and the timing of acquisitions and dispositions. At December 31, 2016, NuVista had an adjusted working capital deficit of \$15.5 million. Adjusted working capital is current assets less current liabilities excluding the current portion of the fair value of the financial derivative liabilities of \$8.7 million and a current portion of ARO of \$8.8 million. The Company believes it is appropriate to exclude these amounts when assessing financial leverage. At December 31, 2016, NuVista had drawn \$nil on its credit facility and had outstanding letters of credit of \$16.9 million which reduce the credit available on the credit facility, leaving \$183.1 million of unused bank borrowing capacity based on the current committed credit facility of \$200.0 million.

NuVista plans to monitor its 2017 business plan and adjust its capital program in the context of commodity prices and debt levels. NuVista plans to finance its 2017 capital program with funds from operating activities, the aforementioned financing, and available bank lines.

As at December 31, 2016, there were 172.7 million common shares outstanding. In addition, there were 6.4 million stock options with an average exercise price of \$7.09 per option and 594 thousand RSAs outstanding.

### **Contractual obligations and commitments**

NuVista enters into contract obligations as part of conducting business. The following is a summary of NuVista's contractual obligations and commitments as at December 31, 2016:

(\$ thousands)	<b>Total</b>	2017	2018	2019	2020	2021	Thereafter
Transportation and processing <sup>(1)</sup>	<b>941,966</b>	61,204	62,775	66,446	74,219	83,797	593,525
Office lease	<b>3,279</b>	3,279	—	—	—	—	—
Drilling rig contracts	<b>2,418</b>	2,418	—	—	—	—	—
<b>Total commitments</b>	<b>947,663</b>	66,901	62,775	66,446	74,219	83,797	593,525

<sup>(1)</sup> Certain of the transportation and processing commitments are secured by outstanding letters of credit totaling \$16.5 million at December 31, 2016 (December 31, 2015 - \$nil)

Subsequent to December 31, 2016, the Company entered into additional transportation and processing commitments for 2017 in the amount of \$2.5 million.

### **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.

### **Annual financial information**

The following table highlights selected annual financial information for the years ended December 31, 2016, 2015 and 2014:

(\$ thousands, except per share amounts)	<b>2016</b>	2015	2014
Oil and natural gas revenues	<b>257,252</b>	225,685	259,107
Net loss	<b>(1,653)</b>	(172,925)	(58,881)
Per basic and diluted share	<b>(0.01)</b>	(1.16)	(0.43)
<b>Balance sheet information</b>			
Total assets	<b>961,240</b>	981,637	1,024,080
Long-term debt	—	196,733	171,969
Shareholders' equity	<b>756,029</b>	629,639	687,647

## Quarterly financial information

The following table highlights NuVista's performance for the eight quarterly reporting periods from March 31, 2015 to December 31, 2016:

(\$ thousands, except per share amounts)	2016				2015			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Production (Boe/d)	<b>24,716</b>	24,898	23,451	25,484	23,355	21,622	21,448	23,215
Oil and natural gas revenues	<b>74,538</b>	65,155	57,840	59,720	55,592	54,664	57,502	57,927
Net earnings (loss)	<b>1,135</b>	2,079	(7,320)	2,453	(69,072)	(74,837)	(21,357)	(7,659)
Net earnings (loss) Per basic and diluted share	<b>0.01</b>	0.01	(0.05)	0.02	(0.45)	(0.49)	(0.14)	(0.06)
Funds from operations	<b>40,697</b>	31,237	35,619	30,288	32,544	31,822	30,306	30,317
Per basic and diluted share	<b>0.24</b>	0.20	0.23	0.20	0.21	0.21	0.20	0.22

NuVista's Montney production volumes have been increasing with substantially all of the Company's capital expenditures allocated to Wapiti Montney and successful drilling and production performance in that area. Total Company production increases have been partially offset with property dispositions. Over the prior eight quarters, quarterly revenue has been in a range of \$54.7 million to \$74.5 million with revenue primarily influenced by production volumes and commodity prices. Net earnings (losses) have been in a range of a net loss of \$74.8 million to net earnings of \$2.5 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 financial derivatives.

### Update on regulatory matters

#### Environmental

In the fourth quarter of 2015, the provincial government of Alberta released its Climate Leadership Plan which will impact all consumers and businesses that contribute to carbon emissions in Alberta. This plan includes imposing carbon pricing that is applied across all sectors, starting at \$20 per tonne on January 1, 2017 and moving to \$30 per tonne on January 1, 2018, the phase-out of coal-fired power generation by 2030, a cap on oil sands emissions production of 100 megatonnes, and a 45 per cent reduction in methane emissions by the oil and gas sector by 2025. NuVista expects the Climate Leadership Plan to increase the cost of operating its properties and is currently evaluating the expected impact of this plan on its results of operations.

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

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

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

Further information regarding environmental and climate change regulations and current provincial royalty and incentive programs are contained in our Annual Information Form for the year ended December 31, 2016 under the Industry Conditions section.

### ***Update on financial reporting matters***

#### ***Future accounting changes***

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by NuVista on January 1, 2018. The Company is currently in the process of reviewing its various revenue streams and underlying contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure.

In July 2014, the IASB issued IFRS 9, “Financial Instruments” to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity’s own credit risk is recorded in OCI rather than the statement of income, unless this creates an accounting mismatch. IFRS 9 also contains a new model to be used for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by NuVista on January 1, 2018. The Company is evaluating the impact this standard may have on the financial statements, as well as the impact that adoption of the standard will have on disclosure.

In January 2016, the IASB issued IFRS 16 “Leases” which replaces IAS 17 “Leases”. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying for IFRS 15 “Revenue from Contracts with Customers”. IFRS 16 will be applied by NuVista on January 1, 2019 and the Company is currently evaluating the impact of the standard may have on the financial statements, as well as the impact that adoption of the standard will have on disclosure.

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

NuVista’s President and Chief Executive Officer (“CEO”) and Vice President, Finance and Chief Financial Officer (“CFO”) are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in National Instrument 52-109. NuVista’s CEO and CFO have designed disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance

that information required to be disclosed by NuVista in its filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and is accumulated and communicated to NuVista's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. The CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Company's disclosure controls and procedures are effective.

The CEO and CFO have also designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of NuVista's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of NuVista;
- (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with GAAP, and that receipts and expenditures of NuVista are being made only in accordance with authorizations of management and directors of NuVista; and
- (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of NuVista's assets that could have a material effect on the annual financial statements.

NuVista has designed its internal controls over financial reporting based on the Committee of Sponsoring Organizations of the Treadway Commission (2013). During the quarter ended December 31, 2016, 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, fracturing regulations and environmental protection relating to the oil and natural gas industry; and
- Labour risks related to availability, productivity and retention of qualified personnel.

NuVista seeks to mitigate these risks by:

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

Information regarding risk factors associated with the business of NuVista and how NuVista seeks to mitigate these risks are contained in our Annual Information Form under the Risk Factors Section for the year ended December 31, 2016.

### **2017 Outlook**

NuVista will continue drilling with five rigs until spring breakup and then reduce to approximately three rigs in operation for the second half of 2017. As previously noted, 2016 capital spending was approximately \$18 million below the midpoint of 2016 guidance primarily as a result of weather-deferred activity. These deferred costs are being incurred in 2017. As a result, we expect 2017 capital expenditures to be at the higher end of our existing capital spending guidance range of \$260 - \$300 million.

Due to some uncertainty in the quarterly phasing of planned maintenance outages, our original guidance was 26,000 - 29,000 Boe/d for each of the first three quarters of 2017. As planned, 5 new wells came on stream in Bilbo in the first quarter. After minor delays, these wells came on-stream in early March as opposed to early February. As a result, first quarter production is expected to be at or slightly below the lower end of our guidance range. As of the first week of March, production has already reached 27,000 Boe/d. The initial productivity of the new wells appears very strong therefore the guidance ranges for the remainder of the year and full year are unchanged. Annual 2017 production guidance is 28,000 - 31,000 Boe/d.

NuVista has top quality assets and every team member is focused upon relentless improvement. We are excited to continue pursuing our 5 year growth plan to 60,000 Boe/d. We would like to thank our staff, contractors, and suppliers for their continued dedication and delivery, and we thank our board of directors and our shareholders for their continued guidance and support.