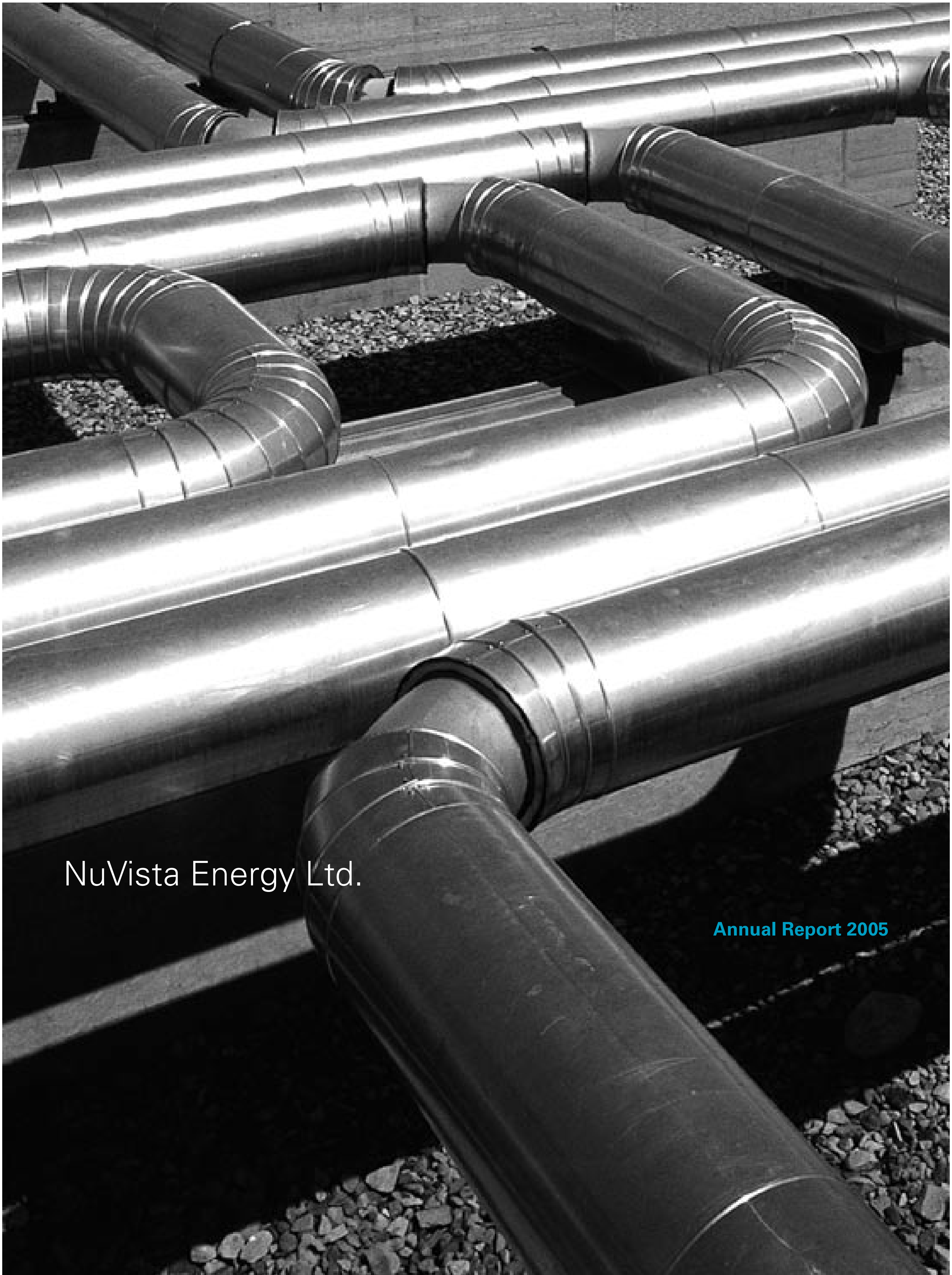

NuVista Energy Ltd.

Annual Report 2005

Corporate profile

NuVista Energy Ltd. (TSX: NVA) is an independent Canadian oil and gas company pursuing a proven growth strategy, with a focus on natural gas. Formed through the reorganization of Bonavista Petroleum Ltd. in July 2003, NuVista is engaged in exploration, development and production activities on properties located in eastern and central Alberta and western Saskatchewan. NuVista creates and sustains profitable per share growth through prudent management of controllable costs, exploitation and development of its existing land base, and the acquisition and subsequent exploitation of new properties in the Western Canada Sedimentary Basin.

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Annual meeting information

The annual and special meeting of shareholders of NuVista Energy Ltd. will be held on May 4, 2006, at 3:00 pm in the Plaza Room at the Metropolitan Conference Centre. Shareholders who are unable to attend this meeting are asked to complete and return a proxy to Valiant Trust Company at their earliest convenience.

NuVista team

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

Craig Burton
Richard Coates
Steve Dalman
Richard Deleff
Floyd Dempsey
Doug DesHarnais
Rob Froese
Paul Gingras
Glen Grant
Gerald Greves
Dennis Grover
Glenn Hamilton
Michael Hanson
Corrine Harder
Terry Hofer
Chris McDavid
Dan McKinnon
Travis Melster
Lisa Mensink
Patrick Miles
Clayton Niedermaier
Leonard Niedermaier
Ryan Paulgaard
Darren Roblin
Kevin Salzl
Derrick Stephenson
Brian Stoebich
Bill Styan
Gordon Timm
Josh Truba
Laura Usher
Alex Verge
Kevin Wagner
Carrie Walker
Ted Watchuk
Jim Webb
Michael Wert
Elaine Wo

Financial and operating highlights

Years ended December 31	2005	2004	% Change
Financial			
($ thousands, except per share amounts)			
Production revenue	169,680	79,398	114
Funds from operations	104,881	49,871	110
Per share – basic	2.40	1.29	86
Per share – diluted	2.31	1.25	85
Net income	39,506	18,322	116
Per share – basic	0.90	0.47	91
Per share – diluted	0.87	0.46	89
Total assets	432,432	173,531	149
Bank loan, net of working capital	69,903	33,805	107
Shareholders' equity	255,604	115,110	122
Net capital expenditures	238,506	89,686	166
Weighted average common shares outstanding (thousands):			
Basic	43,765	38,725	13
Diluted	45,389	39,897	14
Operating			
(boe conversion – 6:1 basis)			
Production:			
Natural gas (mmcf/d)	40.5	25.3	60
Oil and liquids (bbls/d)	2,281	1,338	70
Total oil equivalent (boe/d)	9,024	5,550	63
Product prices:			
Natural gas ($/mcf)	9.02	6.72	34
Oil and liquids ($/bbl)	43.85	35.29	24
Drilling (gross wells):			
Total	106	81	31
Natural gas	75	55	36
Oil	16	15	7
Average success rate (%)	86	86	–
Undeveloped land:			
Gross acres	524,776	345,428	52
Net acres	427,536	310,796	38
Average working interest (%)	81	90	(9)
Reserves:			
Proved plus probable:			
Natural gas (bcf)	128.3	64.9	98
Oil and liquids (mbbls)	5,564	3,580	55
Total barrels of oil equivalent (mboe)	26,953	14,388	87
Finding and development costs ($/boe):			
Proved	18.17	16.70	9
Proved plus probable	15.07	14.38	5
Recycle ratio (cash flow netback per boe/finding and development cost per boe):			
Proved	1.8	1.5	20
Proved plus probable	2.1	1.7	24
Reserve life index (years):			
Proved	5.4	4.8	13
Proved plus probable	6.5	5.7	14

Message to shareholders

Over the past 33 months, NuVista has been focused on a consistent philosophy and on a proven strategy for profitable growth. We were created through the reorganization of Bonavista Petroleum Ltd. in July 2003 and we have delivered continuous profitability in aggregate and on a per share basis by applying the same measured approach as our predecessor. We believe the results speak for themselves.

Our core philosophy is built on the pursuit of technical and operating excellence. There are six core principles to the way we approach our business and we have remained focused on these principles as we grow:

Maintain focus on core areas:

Currently, NuVista has four core areas, being Oyen, Provost, Northwest Saskatchewan and Pembina. We maintain a dominant position in each area, with the exception of Pembina. The three largest core areas represent 85% of our production and consume 85% of our exploration and development capital. Our core areas are natural gas prone, multi-zone properties where we enjoy a significant contiguous land base. The average working interest in these areas exceeds 80%. Prospects on our lands are further enhanced by a large data base of 2D and 3D seismic, most of which is proprietary.

Attract and retain a talented team:

Attracting and retaining talented people proved to be a challenge for our industry in 2005. NuVista continuously strives to be an employer of choice in the oil and natural gas industry and we rely on our people as a key recruiting source in the current market environment. NuVista's ability to assemble our team is the result of engaging our people in a successful operating philosophy, rewarding them with ownership in NuVista, maintaining a healthy work environment and ensuring they can share this information with prospective employees. Throughout 2005, our technical employee base has almost doubled and while that has increased our costs, we have been more than rewarded by an improved ability to optimize our production, generate new prospects and evaluate new acquisition opportunities as they arise.

Operate production and control facilities:

We operate approximately 95% of our production. In our three largest core areas, we operate the pipelines, field compressors and processing facilities that handle the vast majority of our natural gas production. Furthermore, over 80% of our compression facilities are mobile, allowing us to match our equipment to the production from each area, which means we can reduce both wellhead flowing pressures and fixed facility costs. Maintaining control of our own infrastructure allows us to quickly adjust capital programs to changing market conditions, minimize the time between capital investment and cash flow and provides a strategic advantage by creating a barrier to entry for third parties looking to establish footholds in our core areas.

Hold a high working interest:

It is critical that we maintain an ability to manage costs and control the pace of activity in our core areas, particularly in uncertain commodity price environments. Having a high working interest provides a number of advantages for controlling our operations. By minimizing the number of partners we can ensure our exploration and development program is not affected by the business plans or risk tolerances of others. Holding a major interest also provides maximum leverage for our technical teams and ensures our proprietary knowledge is not shared among several parties, thereby protecting our competitive advantage.

Establish and maintain a low cost structure:

NuVista has been and will continue to be a top decile performer in terms of managing our total cash costs. In addition to managing costs by keeping working interests high, we have also focused on establishing a cost structure that remains extremely low. Although NuVista is not immune to the rising costs of labour, materials and services in the oil patch, maintaining control of our operations allows us to assess the impact of rising cost pressures and modify our approach accordingly.

Maintain financial flexibility:

NuVista has reduced its debt to cash flow ratio from 1:1 in July 2003, to the 2005 exit level of approximately 0.4:1. Consequently, NuVista's compounded annual production growth rate of 40% per share has not come at the expense of increased leverage. Stewardship of capital and a conservative approach to debt financing will enable NuVista to take full advantage of any future opportunities that may result from changing market conditions.

These six core principles were foremost in our minds when we began examining the acquisition in Northwest Saskatchewan, completed in August 2005. This $150 million acquisition created a new core area for NuVista, natural gas weighted and consistent with NuVista's strategy of acquiring low cost, operated properties with infrastructure, undeveloped land and significant low-risk development potential.

In addition to the complementary fit with NuVista's ongoing business, the Northwest Saskatchewan acquisition provides a number of other benefits by:

- Increasing NuVista's total proved plus probable reserves by 25% on a per share basis;
- Reducing NuVista's operating costs, on a per boe basis, by approximately 10%;
- Generating accretive cash flow, production and net asset value on a per share basis;
- Reducing NuVista's overall natural gas decline and increasing NuVista's reserve life index; and
- Creating an additional core area with undeveloped land, proprietary seismic and infrastructure with unutilized capacity, thereby enhancing NuVista's ability to internally generate drilling prospects.

While the market for acquisitions was very competitive in 2005, we stayed true to our core philosophy in completing the Northwest Saskatchewan acquisition. We intend to continue this disciplined approach as we move forward.

Since inception in July 2003, we have invested approximately $360 million in our capital programs. Through this period, we have maintained a top decile cost structure, with total cash costs of $6.50 per boe in 2005. In our first two and a half years, our capital program has resulted in an attractive finding and development cost of $13.57 per boe. We have achieved a 2.1:1 recycle ratio (cash flow netback divided by finding and development costs) and achieved a compounded annual growth rate in production of approximately 60%. More importantly, our production and reserves have grown on a per share basis with compound annual growth rates of 40% and 50%, respectively.

NuVista will continue to employ the same core philosophy in 2006 as we have in the past for our capital program. Our Board of Directors has approved a capital program of between $175 and $190 million, with over 80% dedicated to natural gas. The 2006 capital program is split evenly between acquisition based growth and our internally generated exploration and development program. Production levels are expected to grow by approximately 30% with the implementation of this capital program, which would take us from the current level of 11,400 boe/d to about 14,800 boe/d by the end of 2006. As in previous years, approximately 25% of the internal exploration and development program will be directed towards the acquisition of land and seismic and we expect to participate in approximately 150 wells with an average working interest of 80%. We intend to operate over 85% of these wells.

While it is our intention to pursue growth through a balance of acquisitions and property development, we will follow this course in a prudent manner. If we cannot identify acquisition prospects that fit within our core philosophy, we have the flexibility to expand the exploration and development program. The additional investments we have made in building up our technical teams during 2005 will continue to reward us. We have boosted our prospect inventory, thereby providing us with options if the acquisition market proves to be overly competitive. NuVista currently has the richest prospect inventory in its history, including over 200 near-ready prospects, well in excess of one year's drilling activity.

Given the solid prospects ahead, the greatest challenge our team will face is managing the costs associated with an industry operating at full capacity. It is precisely because of rising labour, material and supplier costs that we need to remain vigilant in our financial discipline. Balancing the influences of weather, labour supply, shortage of available services and volatile commodity prices will always be considerations in managing a successful oil and gas company. We believe NuVista has the foundation in place to respond appropriately to changes in the broader market. We will continue to execute our growth strategy with the same focus and discipline we have applied since we commenced operations.

With an undeveloped land base of 427,500 net acres, a large network of operated production facilities, an extensive proprietary seismic data base, a substantial inventory of drilling prospects and a solid balance sheet, the NuVista team is positioned to continue with the well established pattern of growth that has been the key to our success to date.

Our results are due to a team effort and we want to express our continued admiration and appreciation for the dedicated support that we receive from the entire NuVista team. There are currently 35 employees in our office in Calgary and at our field locations within our core areas. These individuals collectively bring the focus and expertise to our operations, allowing us to deliver these results. Thank you for your contributions and your enthusiasm. We also want to thank our Board of Directors for their continued support and guidance in our decision making. Finally, we want to thank you, our shareholders, for your ongoing confidence in the NuVista team. We will continue to work to earn that confidence and we are optimistic about the outlook for 2006 and look forward to reporting to you on our progress throughout the year.

Sincerely,

Signed Signed

Keith A. MacPhail
Chairman

Alex G. Verge
President & CEO

March 15, 2006


SUCT PRESS
DISCH PRESS
COMPRESSOR OIL
PRESSURE

Operations review

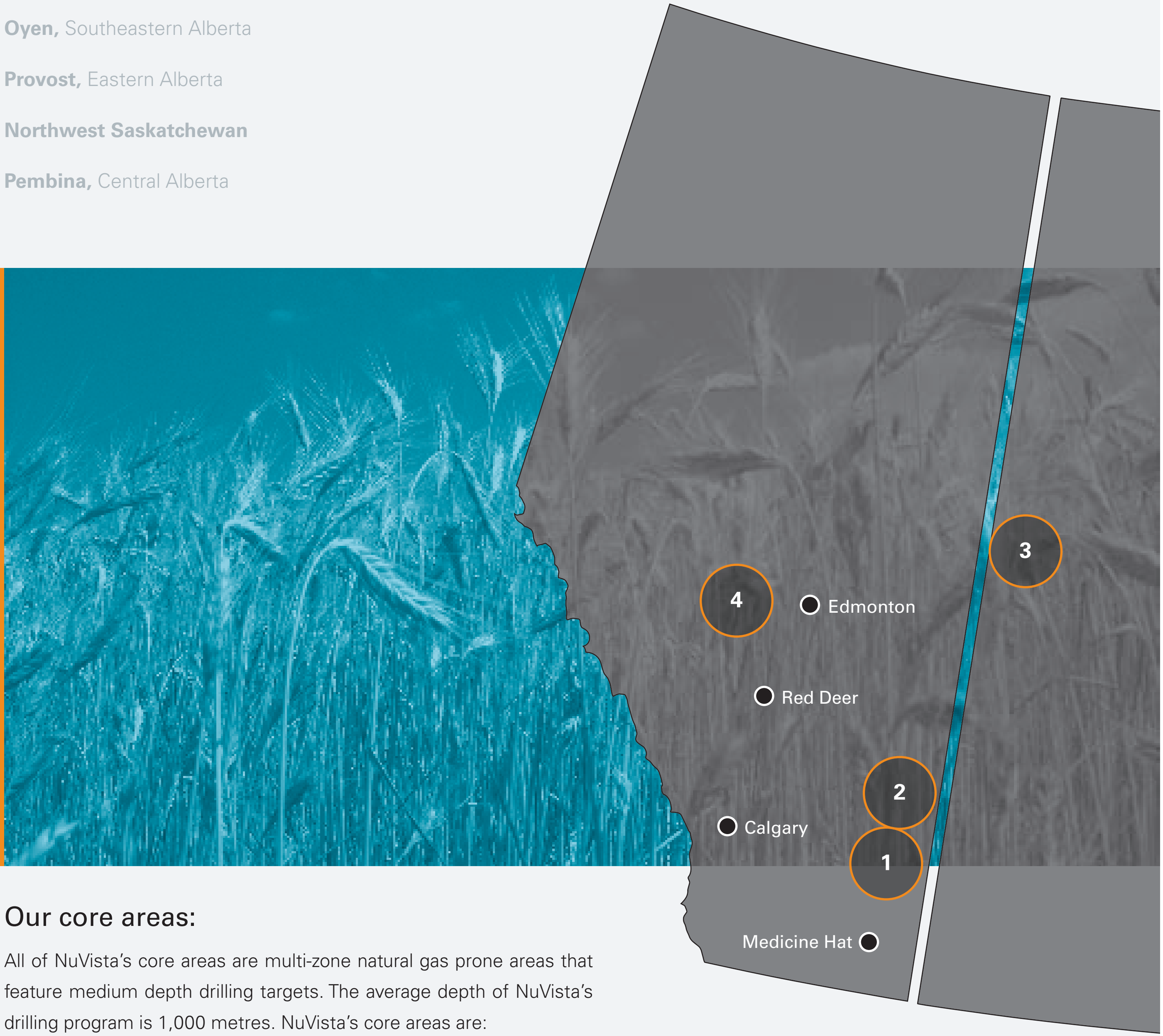
Oyen, Southeastern Alberta

Provost, Eastern Alberta

Northwest Saskatchewan

Pembina, Central Alberta

Oyen Provost Northwest Saskatchewan Pembina



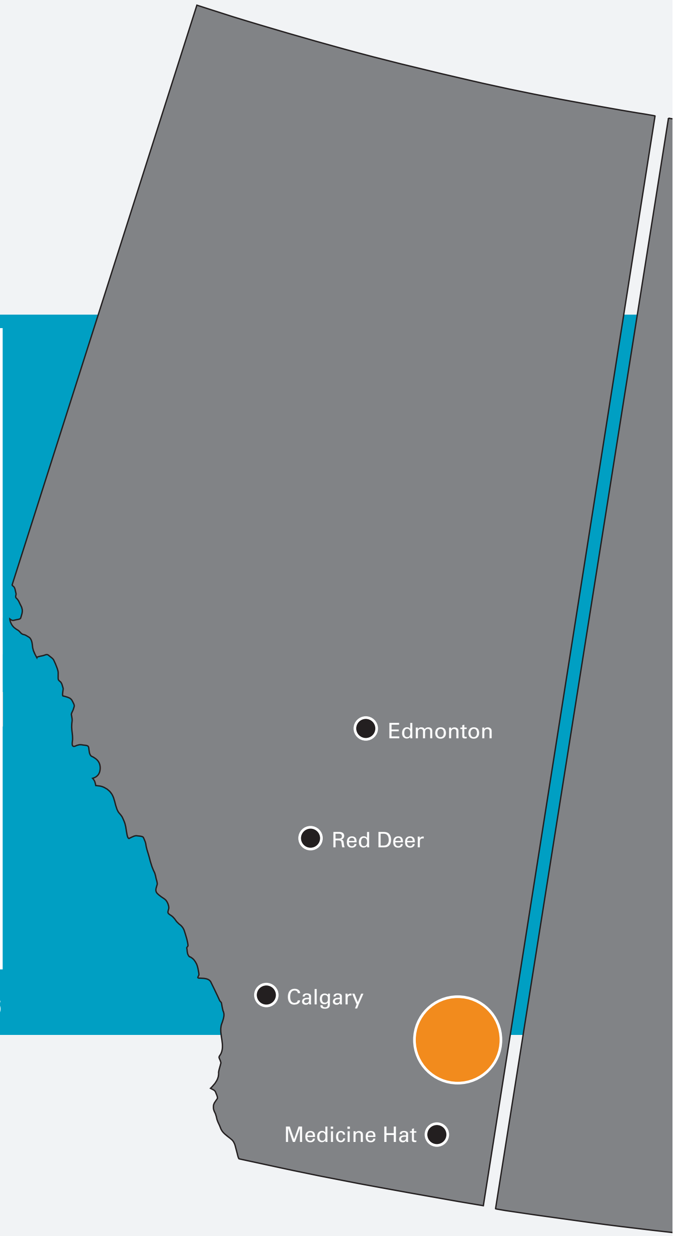
Our core areas:

All of NuVista's core areas are multi-zone natural gas prone areas that feature medium depth drilling targets. The average depth of NuVista's drilling program is 1,000 metres. NuVista's core areas are:

1 Oyen;
2 Provost;
3 Northwest Saskatchewan; and
4 Pembina.

In the first three core areas, the majority of NuVista's production flows through our pipelines to owned and operated facilities. NuVista's exploration and development program benefits from a large contiguous high working interest land base. We have an extensive data base of 2D and 3D seismic, most of which is proprietary.

Oyen



Characteristics

- **Production:** 22.1 mmcf/d of natural gas and 140 bbls/d of oil;
- **Horizons:** 10 zones at less than 1,100 metres;
- **Operations:** 90% of production through owned and operated facilities;
- **Average working interest:** 85%;
- **2005 Wells:** 54 drilled or re-entered; and
- **2006 Activity:** 60 – 65 drilling or re-entry locations planned.

Oyen core area

The Oyen core area is located 250 km east of Calgary near the Alberta-Saskatchewan border. This is NuVista's largest core area with current production of 22.1 mmcf/d of natural gas and 140 bbls/d of oil.

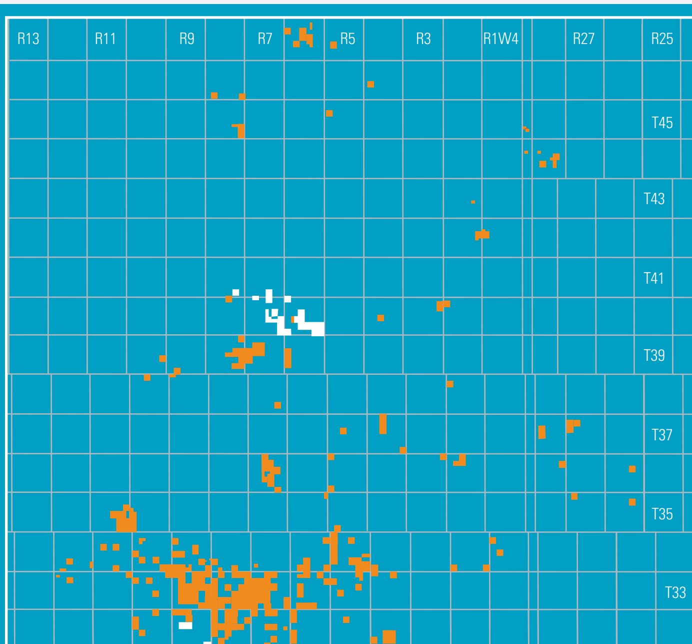
The area contains 10 prospective natural gas horizons at drill depths of less than 1,100 metres. Oyen contains approximately 254,000 net acres of undeveloped land, with an average working interest of 88% and over 210,000 net acres of developed land. NuVista is using an extensive proprietary seismic data base to identify new prospects on both NuVista's developed and undeveloped lands in Oyen.

We operate virtually all of the production in this area and our facilities process over 90% of this production. Our operations include six central processing facilities and a number of field compressors connected with an extensive network of gathering lines. In 2005 NuVista constructed a new facility at Sibbald and conducted a major expansion of the Superba facility to accommodate new production from our 2005 and 2006 drilling programs.

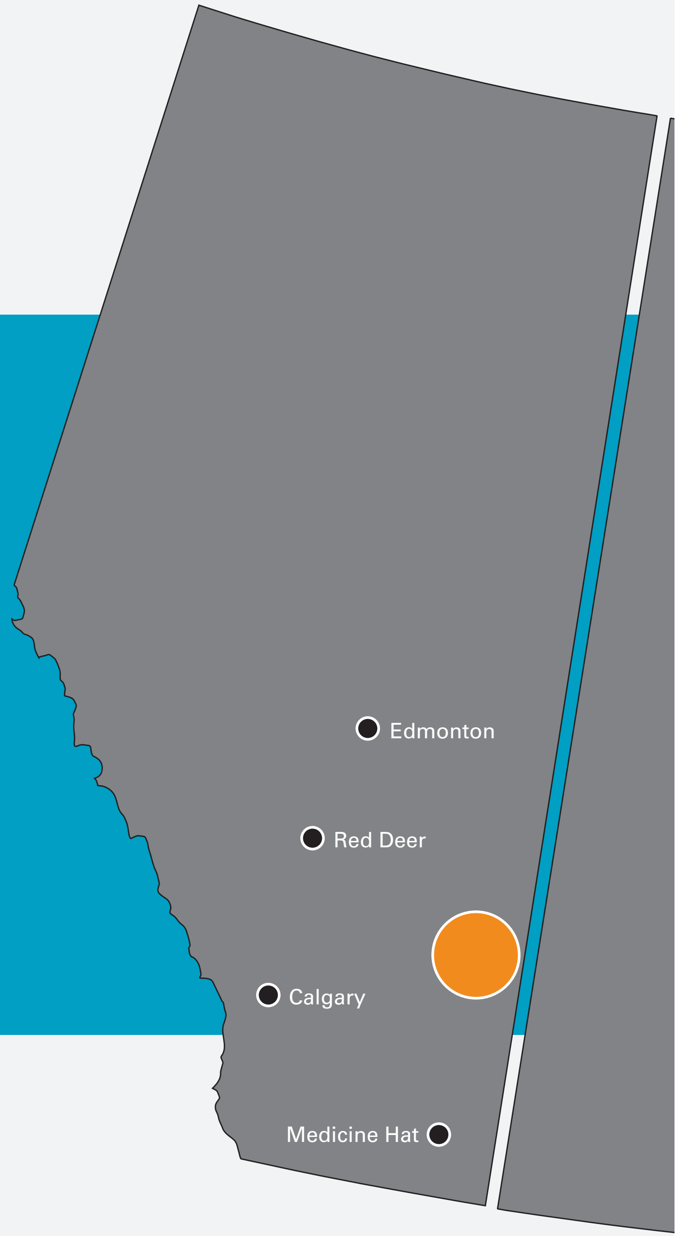
NuVista's dominant position in Oyen ensures a high degree of flexibility in operating the production and controlling the pace of development within the area.

In 2005, we drilled or re-entered 54 wells with an average success rate of 91%. This program resulted in 44 natural gas wells, five oil wells and five dry holes. During the year ahead, we plan to drill or re-enter 60 to 65 wells.

Provost



NuVista land, July 2, 2003 NuVista land acquisitions to March 2006



Characteristics

- **Production:** 6.3 mmcf/d of natural gas and 2,050 bbls/d of oil;
- **Horizons:** 10 zones at less than 1,100 metres;
- **Operations:** 80% of production through owned and operated facilities;
- **Average working interest:** 75%;
- **2005 Wells:** 35 drilled or re-entered; and
- **2006 Activity:** 30 – 35 drilling or re-entry locations planned.

Provost core area

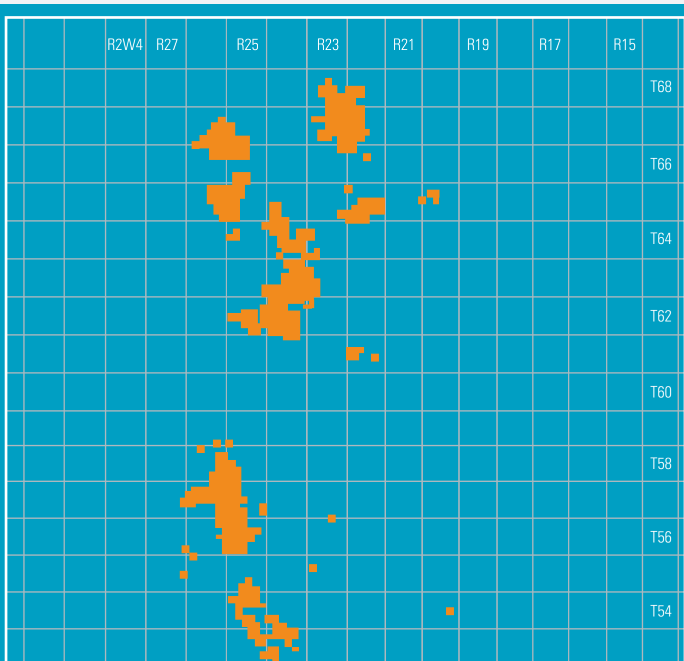
The Provost core area is located directly north of the Oyen core area, with the southern portion being predominately natural gas, while the northern portion is predominately oil. The current production in Provost is 6.3 mmcf/d of natural gas and 2,050 bbls/d of oil. This area contains approximately 81,000 net acres of undeveloped land, with an average working interest of 91%.

The southern portion of Provost contains 10 prospective natural gas horizons at drill depths of less than 1,100 metres. In 2005, NuVista constructed a new operated natural gas facility at Veteran and connected approximately 50% of its natural gas production in this core area to it. This facility reduces pressure on the existing wells and provides NuVista with more control over the processing options for future production.

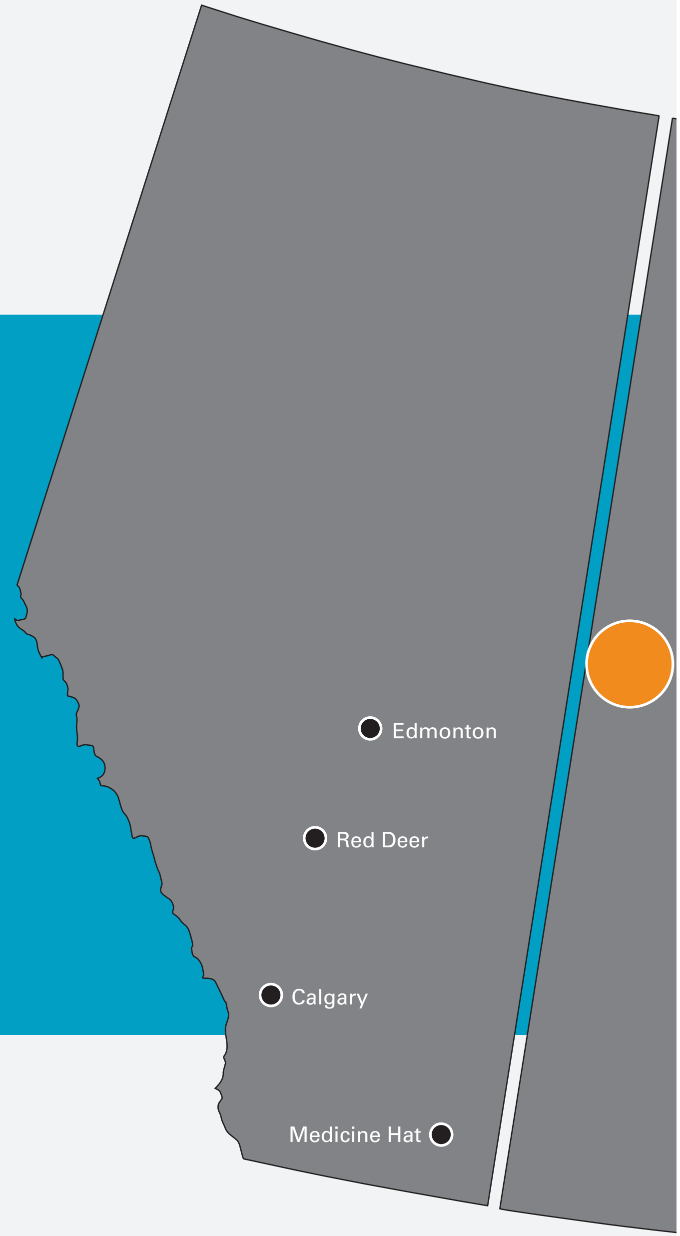
The northern portion of our Provost core area is also multi-zone and contains both natural gas and medium to heavy oil targets. In 2005, we expanded our production base and prospect inventory in Provost by adding three new oil properties. NuVista's four oil properties produce oil ranging from 15˚- 25˚ API, averaging 20˚API. In 2005, NuVista's oil drilling was focused primarily on drilling infill wells at our Amisk property. In 2006, NuVista's focus will be the delineation of a pool extension in our Auburndale property based upon land and 3D seismic acquired in 2005.

In 2005, we drilled or re-entered 35 wells and achieved an average success rate of 74%, yielding 15 natural gas wells, 11 oil wells and nine dry holes. During the year ahead, we plan to drill or re-enter 30 to 35 wells in this core area.

Northwest Saskatchewan



NuVista land acquisitions to March 2006



Characteristics

- **Production:** 20.8 mmcf/d of natural gas;
- **Horizons:** six zones at less than 800 metres;
- **Operations:** 95% of production through owned and operated facilities;
- **Average working interest:** 65%;
- **2005 Wells:** four drilled; and
- **2006 Activity:** 30 – 40 drilling or re-entry locations planned.

Northwest Saskatchewan core area

In August 2005, we completed a major acquisition and created a new core area for NuVista in Northwest Saskatchewan. This acquisition increased NuVista's natural gas exposure and reduced overall operating costs on a boe basis. A separate technical team has been formed to work this core area.

The Northwest Saskatchewan core area is located 100 km east of Cold Lake, Alberta just across the Alberta-Saskatchewan border. NuVista is currently producing 20.8 mmcf/d of natural gas in this core area.

This area is natural gas prone and contains six prospective horizons at drill depths of less than 800 metres. The average working interest in the production in this area is 65% and NuVista has approximately 81,000 net acres of undeveloped land. Production optimization in 2006 will focus on maximizing deliverability, drainage and the recovery factor from the existing Colony pools.

In addition to acquiring production, land and infrastructure in Northwest Saskatchewan, NuVista also acquired a large proprietary seismic data base containing over 5,800 km of 2D seismic data. Both this seismic data base and data from a new seismic shoot being conducted in the first quarter of 2006, will be used to set up the drilling program for the remainder of 2006 and 2007.

We operate virtually all of the production in this area, 95% of which is processed through our owned facilities. Our operations in the area include 15 compressors in six main facilities connected by an extensive network of large diameter natural gas gathering lines. In late 2005, NuVista expanded the capacity of its Primrose facility.

In 2005, we drilled four wells and achieved a success rate of 100%. All of these wells were low working interest non-operated wells. During the year ahead, we plan to drill or re-enter 30 to 40 wells. NuVista will operate 75% of these with high working interests.

Pembina

Pembina core area

Pembina is the smallest of NuVista's core areas and was established in 2004 from an acquisition, coupled with a farm-in near Chip Lake.

The average working interest at Pembina is 55%, slightly lower than our other areas. This results from a combination of high working interest internally generated prospects and the continued exploitation of lower working interest acquired lands.

Although NuVista's operating reliability in this area is somewhat disadvantaged by a lack of operated facilities, the abundance of third-party infrastructure ensures adequate capacity for our current and future production. Until we establish critical mass from our natural gas production, we will continue to rely on third party facilities, but will attempt to mitigate the risk by connecting the production to more than one facility.

NuVista's Pembina core area contains approximately 12,000 net acres of undeveloped land. In 2005, we drilled or re-entered 13 wells and achieved an average success rate of 92%, yielding 12 natural gas wells and one dry hole. During 2006, we plan to drill or re-enter 15 to 20 wells. We are planning a low-risk, shallow natural gas program including downspacing of our existing lands and a medium-risk drilling program on acquired and/or optioned lands.

Characteristics

- **Production:** 3.5 mmcf/d of natural gas and 100 bbls/d of oil;
- **Horizons:** 13 zones, at up to 2,500 metres;
- **Average working interest:** 55%;
- **2005 Wells:** 13 drilled; and
- **2006 Activity:** 15 – 20 drilling or re-entry locations planned.

Undeveloped land

By the end of 2005, NuVista's undeveloped land had grown to 427,500 net acres from 310,800 net acres at the end of 2004. We invested approximately $8 million on undeveloped land as part of our 2005 exploration and development program. In addition, half of the new lands in 2005 were added through our acquisition program. Virtually all of our undeveloped land is located in large, contiguous, high working interest land blocks in our four core areas.

December 31,	**2005**	2004	% Change
Gross acres	**524,800**	345,400	52
Net acres	**427,500**	310,800	38
Average working interest (%)	**81**	90	(9)
Estimated value [(1)] ($ thousands)	**42,750**	23,310	83

(1) Value estimated by NuVista, based on land sale activity in our core areas, accounting for land expiries.

In addition to our strong undeveloped land position, we also possess approximately 360,000 net acres of developed land. These lands are located within our core areas and have an average working interest of 76%. With the refinement of new seismic techniques and the identification of new drilling opportunities on existing lands, our developed land inventory is also playing a significant roll in our 2006 exploration and development program, with approximately 20% of our planned wells on developed acreage.

NuVista has budgeted to spend $12 million on undeveloped land acquisitions in 2006. Our ongoing commitment to enhancing our land position and seismic data base ensures that we will continue enjoying a rich and renewable prospect inventory in each of our core areas for years to come.

Seismic

Building the seismic inventory has been one of our focuses in 2005 and has resulted in an impressive accumulation of strategically situated seismic. We currently have approximately 15,000 km of 2D seismic and over 500 sq km of high resolution 3D seismic. At the end of 2004 we had about 7,000 km of 2D seismic and 435 sq km of 3D seismic data. The majority of our seismic data is new vintage and proprietary data. Virtually all of this seismic data is located within our core areas and is specific to our contiguous land base, thereby enhancing our strategic advantage over our competitors.

The addition of new seismic in 2005 came through our ongoing exploration and development program as well as with our acquisitions. The exploration and development program resulted in the acquisition of 1,994 km of 2D seismic data and 92.6 sq km of high resolution 3D seismic. A further 5,850 km of 2D seismic, most of which is proprietary seismic with trading rights, was added through the ongoing acquisition program. Exploration and development seismic expenditures totalled approximately $6.6 million for 2005. We plan to spend $12 million on seismic in 2006.

Reserves

In 2005, NuVista's $239 million capital program added 13.2 mmboe of proved reserves and 15.9 mmboe of proved plus probable reserves. The largest single contributor to this growth was the acquisition of the Northwest Saskatchewan core area.

Highlights of the reserve additions for 2005 include:

- Achieved proved plus probable finding and development costs of $15.07/boe;
- Proved reserves grew 88% to 21.0 mmboe;
- Proved plus probable reserves grew 88% to 27.0 mmboe;
- Approximately 82% of additions were natural gas;
- Natural gas weighting of reserves has increased to 79%;
- Proved producing reserves have increased to 72% of total reserves; and
- Total proved reserves represent 78% of the total reserves.

Summary of reserves

	Natural gas		Oil and liquids		Total	
	Gross [1]	Net [1]	Gross [1]	Net [1]	Gross [1]	Net [1]
	(mmcf)	(mmcf)	(mbbls)	(mbbls)	(mboe)	(mboe)
Proved producing	90,762	68,361	4,358	3,884	19,485	15,278
Proved non-producing	7,676	6,189	51	44	1,330	1,076
Proved undeveloped	1,256	1,057	1	–	210	177
Total proved [3]	99,694	75,606	4,410	3,929	21,025	16,530
Probable	28,640	22,472	1,155	1,026	5,928	4,771
Total proved plus probable [3]	128,335	98,078	5,564	4,955	26,953	21,301

	Present value of cash flow before tax discounted at [2]		
(thousands)	0%	5%	10%
Proved producing	$ 548,436	$ 443,022	$ 377,917
Proved non-producing	39,718	34,360	30,483
Proved undeveloped	7,026	4,325	3,116
Total proved [3]	595,180	481,708	411,515
Probable	166,301	103,931	75,302
Total proved plus probable [3]	$ 761,482	$ 585,639	$ 486,817

(1) "Gross" reserves are the total remaining recoverable reserves owned by NuVista before deduction of royalties. "Net" reserves are defined as those accruing to NuVista after all royalty interests owned by others, including Crown and freehold royalties, have been deducted.
(2) The pricing forecast used in determining the value of cash flow is based on the December 31, 2005 forecast determined by GLJ Petroleum Consultants Ltd.
(3) Numbers may not add due to rounding.

Reconciliation of reserves

	Natural gas			Oil and liquids		
	Proved	Probable	Total	Proved	Probable	Total
		(mmcf)			(mbbls)	
Balance, December 31, 2004	49,207	15,643	64,850	2,952	628	3,580
Net additions	65,763	14,129	79,892	2,176	669	2,845
Revisions	(510)	(1,131)	(1,641)	114	(142)	(28)
Production	(14,766)	–	(14,766)	(833)	–	(833)
Balance, December 31, 2005 (1)	99,694	28,640	128,335	4,410	1,155	5,564

(1) Numbers may not add due to rounding.

Reserve highlights

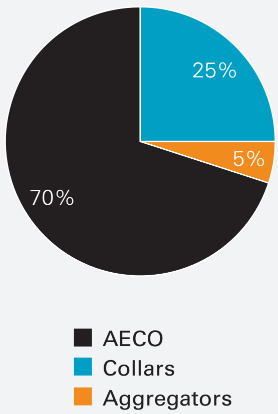
Year ended December 31, 2005	Natural gas	Oil and liquids	Total boe
Reserve life index (years):			
Proved	5.3	5.8	5.4
Proved plus probable	6.4	6.9	6.5
Net reserve replacement ((net additions +/– revisions) / production)			
Proved	4.4	2.8	4.0
Proved plus probable	5.3	3.4	4.8

Years ended December 31,	**2005**	2004
Finding and on-stream costs ($/boe)		
Proved	**18.17**	16.70
Proved plus probable	**15.07**	14.38
Recycle ratio (cash flow netback/finding and development costs)		
Proved	**1.8**	1.5
Proved plus probable	**2.1**	1.7

Marketing

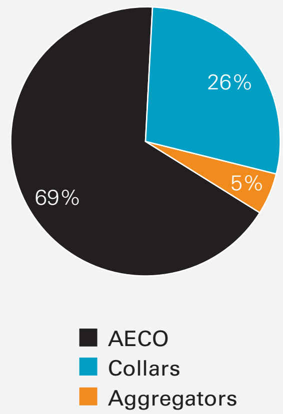
Contract portfolios

2005 Natural gas price portfolio



2005 Natural gas volumes and price:
40.5 mmcf/d average price: $9.02/mcf

2006 Natural gas price portfolio



2006 Forecast natural gas volumes and price:
60.0 mmcf/d average price: $8.77/mcf

Natural gas:

NuVista has established a natural gas transportation and sales portfolio which will ensure receipt capacity at reasonable cost and provide an appropriate customer base. Our marketing objectives also include protecting or securing minimum prices for up to 60% of our net after royalty production for terms not exceeding two years. Our hedging methodology is primarily comprised of costless collars. In order to control and manage credit risk and ensure competitive bids, NuVista engages a number of reputable counterparties for our natural gas transactions. Our sales portfolio also includes sales to traditional aggregators.

The integration and application of these strategies resulted in an average realized price of Cdn$9.02/mcf for the year ended December 31, 2005. For 2006, NuVista is forecasting its natural gas price to average $8.77/mcf based on an expected average 2006 NYMEX natural gas price of US$8.50/mmbtu.

Oil and liquids:

NuVista sells its oil and liquids production to a variety of purchasers. This enables us to benefit from specific regional advantages, while maintaining price and delivery flexibility. NuVista is continually monitoring global and regional crude oil markets and looks for opportunities to hedge up to 60% of net after royalty production.

In 2005, NuVista's average realized oil and liquids price was Cdn$43.85/bbl. The 2006 budget is based on a WTI price of US$60.00/bbl, which converts to approximately Cdn$45.10/bbl realization at the wellhead.

Additional details on NuVista's hedging program are shown in Note 9 of our Consolidated Financial Statements for the year ended December 31, 2005, on page 40 of this Annual Report.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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's audited consolidated financial statements for the year ended December 31, 2005. Our audited consolidated financial statements, Annual Report, annual information form and other disclosure documents for 2005 will be available on or before March 31, 2006 through our filings on SEDAR at **www.sedar.com** or can be obtained from our website at **www.nuvistaenergy.com**.

Basis of presentation:

The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel 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 and services, 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. Management uses funds from operations to analyze operating performance and leverage. Funds from operations as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net income or other measures of financial performance calculated in accordance with Canadian GAAP. All references to funds from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital and abandonment expenditures. 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 period. Management uses these terms to analyze operating performance and leverage.

Overview

The tables below set forth a summary of operations, including netbacks for the year ended December 31, 2005 compared to the year ended December 31, 2004 and netbacks on a product basis:

Years ended December 31,	2005		2004		% Change	
Production	9,024 boe/d		5,550 boe/d		63	
	(thousands)	($/boe)	(thousands)	($/boe)	(total)	($/boe)
Field netback:						
Production revenue	$ 169,680	$ 51.52	$ 79,398	$ 39.09	114	32
Royalties	(40,331)	(12.25)	(17,701)	(8.72)	128	40
Transportation costs	(3,064)	(0.93)	(1,630)	(0.80)	88	16
Operating expenses	(16,696)	(5.07)	(8,392)	(4.13)	99	23
Field netback:	109,589	33.27	51,675	25.44	112	31
General and administrative	(1,823)	(0.55)	(834)	(0.41)	119	34
Interest	(2,231)	(0.68)	(574)	(0.28)	289	143
Capital taxes	(654)	(0.20)	(396)	(0.20)	65	–
Funds from operations netback:	104,881	31.84	49,871	24.55	110	30
Stock-based compensation	(1,516)	(0.46)	(1,035)	(0.51)	46	(10)
Depreciation, depletion and accretion	(40,411)	(12.27)	(19,727)	(9.71)	105	26
Future income taxes	(23,448)	(7.12)	(10,787)	(5.31)	117	34
Net income	$ 39,506	$ 11.99	$ 18,322	$ 9.02	116	33

Netback by product	Natural gas		Oil and liquids		2005 Total	
2005 production	40.5 mmcf/d		2,281 bbls/d		9,024 boe/d	
	(thousands)	($/mcf)	(thousands)	($/bbl)	(thousands)	($/boe)
Field netback:						
Production revenue	$ 133,163	$ 9.02	$ 36,517	$ 43.85	$ 169,680	$ 51.52
Royalties	(33,990)	(2.30)	(6,341)	(7.61)	(40,331)	(12.25)
Transportation costs	(2,044)	(0.14)	(1,020)	(1.22)	(3,064)	(0.93)
Operating expenses	(10,680)	(0.72)	(6,016)	(7.22)	(16,696)	(5.07)
Field netback	$ 86,449	$ 5.86	$ 23,140	$ 27.80	$ 109,589	$ 33.27

Operations:

For the year ended December 31, 2005, NuVista drilled 106 (82 net) wells, operating 92 of them, resulting in 75 natural gas wells, 16 oil wells and 15 dry holes. With the start up of NuVista's Provost facility in August 2005, the Pembina core area is now the only area where the majority of NuVista's production is dependant upon third party facilities. During the fourth quarter of 2005, NuVista participated in 30 wells with an average working interest of 79% and operated 26 of these wells. The success rate of 77% in this drilling program resulted in 20 natural gas wells and three oil wells. NuVista continues to actively drill in its core areas, with 40 wells planned for the first quarter of 2006. NuVista has commenced its 2006 first quarter drilling program, participating in 29 wells thus far with an 86% success rate, and is currently drilling in Northwest Saskatchewan.

Production:

For the year ended December 31, 2005 NuVista's average production was 9,024 boe/d, comprised of 40.5 mmcf/d of natural gas and 2,281 bbls/d of oil and liquids, which represents a 63% increase over the same period in 2004. For the fourth quarter of 2005, NuVista's average production was 11,031 boe/d, comprised of 52.0 mmcf/d of natural gas and 2,365 bbls/d of oil and liquids, which represents a 65% increase over the same period in 2004. Warm weather in the fourth quarter of 2005 and first quarter of 2006 has delayed the planned drilling program in Northwest Saskatchewan to February 2006. This delay resulted in 200 boe/d of our 2005 exit volumes being deferred until the second quarter of 2006.

Revenues:

For the year ended December 31, 2005, revenues, before transportation costs were $169.7 million, a 114% increase from $79.4 million, for the same period in 2004. These revenues were comprised of $133.2 million of natural gas and $36.5 million of oil and liquids. The increase in revenues for the year ended December 31, 2005 versus the same period of 2004 results directly from a 63% increase in production and a 32% increase in commodity prices. The increase in realized commodity prices is comprised of a 34% increase in the natural gas price to $9.02/mcf from $6.72/mcf and a 24% increase in the oil and liquids price to $43.85/bbl from $35.29/bbl. Revenues, before transportation costs, for the three months ended December 31, 2005 were $63.3 million, a 157% increase from $24.6 million for the three months ended December 31, 2004 because of the increases in both production and realized prices in the fourth quarter of 2005 versus 2004.

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 in an unpredictable commodity price environment. In the third quarter of 2005, NuVista's Board of Directors approved an increase of the hedging limit to 60% from the previous 50% of forecast production, net of royalties, primarily using costless collars. Our strategy limits NuVista's exposure to downturns in commodity prices while allowing for participation in commodity price increases. For the year ended December 31, 2005, a net loss of $1.7 million was experienced due to the stronger than expected commodity prices realized throughout the period. In the fourth quarter of 2005, our hedging program resulted in a loss of $994,000. The following is a summary of hedging contracts in place as at December 31, 2005:

a) *Financial instruments:*

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

WTI	Average price ($/bbl)	Term
250 bbls/d	Cdn$60.00 – Cdn$75.00	January 1, 2006 – March 31, 2006
250 bbls/d	U.S.$60.00 – U.S.$84.00	January 1, 2006 – March 31, 2006
250 bbls/d	Cdn$61.00 – Cdn$75.00	April 1, 2006 – June 30, 2006

As at December 31, 2005, NuVista has hedged by way of costless collars the following natural gas contracts:

AECO	Average price (Cdn$/gj)	Term
2,500 gj/d	$7.00 – $11.15	November 1, 2005 – March 31, 2006
5,000 gj/d	$8.25 – $12.33	April 1, 2006 – October 31, 2006

As at December 31, 2005, the market deficiency of the financial instruments was approximately $500,000.

b) *Physical purchase contracts:*

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

AECO	Average Price (Cdn$/gj)	Term
17,500 gj/d	$8.89 – $13.65	November 1, 2005 – March 31, 2006
15,000 gj/d	$7.50 – $10.99	April 1, 2006 – October 31, 2006

Royalties:

Royalties of $40.3 million for the year ended December 31, 2005 were 128% higher than the $17.7 million for the same period of 2004. The increase in royalties for the year ended December 31, 2005 resulted from higher revenues compared to the same period of 2004, generated by a 63% increase in production volumes and a 32% increase in commodity prices. Royalty rates by product for the year ended December 31, 2005 were 25.5% for natural gas and 17.4% for oil and liquids versus 23.8% for natural gas and 16.7% for oil and liquids for the same period in 2004. Royalties for the three months ended December 31, 2005 were $16.3 million, an increase of 203% over the $5.4 million reported for the three months ended December 31, 2004. The increase in royalties directly results from higher revenues in the fourth quarter of 2005 versus the same period in 2004. As a percentage of revenue, the average royalty rate for the fourth quarter of 2005 was 25.8% compared to 21.9% for the comparative period of 2004. Royalty rates by product for the fourth quarter of 2005 were 27.4% for natural gas and 16.3% for oil and liquids versus 22.8% for natural gas and 18.2% for oil and liquids for the similar period in 2004. The increase in the natural gas royalty rates results from higher natural gas prices, higher royalty rates on the Northwest Saskatchewan properties and increased production levels in the fourth quarter of 2005.

Transportation:

For the year ended December 31, 2005, transportation costs were $3.1 million ($0.93/boe) as compared to $1.6 million ($0.80/boe) for the same period in 2004. The increase in transportation costs is a result of a 63% increase in production volumes. This acquisition increased NuVista's weighting towards natural gas in 2005 as compared to 2004. Transportation costs were $895,000 ($0.88/boe) for the three months ended December 31, 2005 as compared to $496,000 ($0.80/boe) for the fourth quarter of 2004.

Operating:

Operating expenses were $16.7 million for the year ended December 31, 2005 versus $8.4 million for the same period in 2004, an increase of 99%. This increase resulted primarily due to the higher production volumes, increased per unit oil operating costs associated with the first quarter of 2005 acquisition and a slight increase in per unit natural gas operating costs. For the year ended, December 31, 2005, natural gas operating expenses averaged $0.72/mcf and oil and liquids operating expenses were $7.22/bbl as compared to $0.69/mcf and $4.04/bbl respectively for the same period of 2004. On a boe basis, operating costs increased 23% to $5.07/boe for the year ended December 31, 2005 as compared to $4.13/boe for the same period of 2004. This increase is primarily due to higher per unit costs of the oil assets acquired in the first quarter of 2005 and increasing cost pressures facing the entire industry. Despite these increases, NuVista expects to remain in the top decile for oil and natural gas companies in its peer group. NuVista's overall cash costs are forecasted to increase in 2006 due to rising cost pressures in the Canadian oil and natural gas industry, however, forecasted cash costs of $7.40/boe for 2006 should ensure NuVista remains in the top decile of its peer group. Operating expenses were $5.1 million ($5.04/boe) for the three months ended December 31, 2005, a 91% increase when compared to $2.7 million ($4.34/boe) for the three months ended December 31, 2004. This increase resulted from the higher production volumes and a 16% increase in per unit costs in the fourth quarter of 2005 versus the fourth quarter of 2004. The increase in per unit costs resulted from higher per unit costs of the oil production from the acquisition completed in the first quarter of 2005.

General and administrative:

General and administrative expenses, net of overhead recoveries for the year ended December 31, 2005 were $1.8 million ($0.55/boe), an increase of 119% over the $834,000 ($0.41/boe) for the year ended December 31, 2004. This increase is directly attributable to the higher production base in NuVista, hiring of NuVista's own core area teams, higher employee costs experienced throughout the energy industry and the allocation of higher per unit overhead costs from Bonavista, in accordance with the Technical Services Agreement (the "TSA"). For the year ended December 31, 2005, Bonavista charged $1.7 million, as compared to $1.3 million in 2004, to NuVista for general and administrative services under the TSA. The TSA, 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 taking advantage of Bonavista's low overhead cost structure. NuVista recorded a stock-based compensation charge of $1.5 million for the year ended December 31, 2005 versus $1.0 million for the same period in 2004 calculated on both the Class B Performance Shares and stock options. General and administrative expenses were $721,000 ($0.71/boe) net of overhead recoveries for the three months ended December 31, 2005, as compared to the charge of $326,000 ($0.53/boe) for the same period in 2004. This increase in per unit costs in the fourth quarter over the year to date trend results from the accrual of the year end bonuses.

Years ended December 31,		2005		2004
(thousands)				
Gross	$	4,137	$	2,339
Overhead recoveries		(2,314)		(1,505)
Net general and administrative expenses	$	1,823	$	834
Per boe	$	0.55	$	0.41

Interest:

Interest expense for the year ended December 31, 2005 was $2.2 million ($0.68/boe) versus $574,000 ($0.28/boe) for the same period of 2004 due primarily to higher average debt levels. Cash paid for interest for the year ended December 31, 2005 was $2.2 million compared to $560,000 for 2004. For the three months ended December 31, 2005, interest expense was $834,000 ($0.82/boe), up 242% from $244,000 ($0.40/boe) in the same period of 2004, due to higher average debt levels in 2005 in connection with the Northwest Saskatchewan property acquisition. Currently, NuVista's borrowing rate is 4.5%.

Depreciation, depletion and accretion:

Depreciation, depletion and accretion expenses for the year ended December 31, 2005 were $40.4 million, an increase of 105% over the $19.7 million for the year ended December 31, 2004. The average cost per unit was $12.27/boe for the 12 months ended December 31, 2005 versus $9.71/boe in the same period in 2004, due to higher costs of adding reserves, which is a trend being experienced throughout the industry. Depreciation, depletion and accretion expenses were $13.2 million for the fourth quarter of 2005 compared to $6.3 million for the same period in 2004, an increase of 108%. The average cost per unit was $12.98/boe in the fourth quarter of 2005 versus $10.28/boe for the same period in 2004.

Income and other taxes:

For the year ended December 31, 2005, the provision for income and other taxes was $24.1 million for an effective tax rate of 37.9%, as compared to $11.2 million for an effective tax rate of 37.9% for the same period in 2004. Cash paid for income and other taxes for the year ended December 31, 2005 was $369,000. For the fourth quarter of 2005, the provision for income and other taxes was $9.6 million for an effective tax rate of 37.2%, as compared to $3.1 million with an effective tax rate of 35.2% for the fourth quarter of 2004. The increase in the effective tax rate results from a higher Large Corporation Tax provision.

Years ended December 31,		2005		2004
(thousands)				
Future income taxes	$	23,448	$	10,787
Large Corporations Tax		654		396
Income and other taxes	$	24,102	$	11,183

Capital expenditures:

Capital expenditures were $238.5 million for the year ended December 31, 2005 consisting of exploration and development spending of $65.9 million and $172.6 million of acquisitions, compared to $89.7 million incurred for the 12 months ended December 31, 2004 with approximately $49.5 million spent on acquisitions. Capital expenditures were $15.3 million during the fourth quarter of 2005 versus $13.8 million in the same period of 2004, all allocated to exploration and development activities in both periods.

Years ended December 31,		2005		2004
(thousands)				
Land and retention costs	$	8,709	$	8,017
Seismic		8,515		5,957
Drilling and completion		29,972		20,580
Facilities and equipment		18,659		9,099
Acquisitions		173,223		46,135
Dispositions		(572)		(102)
Total capital expenditures	$	238,506	$	89,686

Funds from operations and net income:

For the year ended December 31, 2005, NuVista's funds from operations were $104.9 million ($2.40/share, basic), a 110% increase from $49.9 million ($1.29/share, basic) for the year ended December 31, 2004. In the fourth quarter of 2005, funds from operations were $39.3 million ($0.81/share, basic), a 158% increase over the $15.2 million ($0.38/share, basic) for the same period in 2004. For the year ended December 31, 2005 net income increased 116% to $39.5 million ($0.90/share, basic) from $18.3 million ($0.47/share, basic) for the same period in 2004. Net income also increased 184% during the fourth quarter of 2005 to $16.3 million ($0.34/share, basic) from the $5.7 million ($0.14/share, basic) for the same period in 2004. The increases in funds from operations and the net income for both periods in 2005 as compared to 2004 result from increases in both production and commodity prices.

Tax pools:

NuVista had approximately $153 million of estimated tax pools as at December 31, 2005 available for deduction against future years' taxable income. Based on these estimated tax pools, NuVista does not forecast paying a material amount of cash income taxes in 2006. The following table summarizes tax pool balances:

		Available balance	Maximum annual deduction
(thousands)			(%)
Canadian exploration expense	$	2,000	100
Canadian development expense		31,000	30
Canadian oil and gas property expense		48,000	10
Undepreciated capital cost		68,000	25
Other		4,000	20
Total	$	153,000	

Liquidity and capital resources:

As at December 31, 2005, total bank debt (net of working capital) was $69.9 million, resulting in a debt to running cash flow ratio of approximately 0.4:1. NuVista has approximately $60.1 million of unused bank borrowing capability at year-end. In the third quarter of 2005, NuVista increased its bank facility to $130 million, which provides substantial flexibility to fund expanded capital programs into the future. The bank loan facility is secured and has a term of one year beyond the next annual review expected to be completed by June 30, 2006. As at March 15, 2006, there were 48,426,596 common shares and 559,630 Class B Performance Shares outstanding. In addition, there were 2,839,012 stock options outstanding, with an average exercise price of $10.32/share.

Contractual obligations:

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

Annual financial information:

The following table highlights selected annual financial information for the years ended December 31, 2005 and 2004 and for the period from July 2, 2003 to December 31, 2003:

	Years ended December 31, 2005	Years ended December 31, 2004	July 2 to December 31, 2003
(thousands, except per share amounts)			
Statement of operations information:			
Production revenue	$ 169,880	$ 79,398	$ 25,758
Net income	39,506	18,322	5,624
Per share – basic	0.90	0.47	0.15
Per share – diluted	0.87	0.46	0.15
Balance sheet information:			
Total assets	$ 432,432	$ 173,531	$ 94,374
Bank loan	70,524	28,352	–
Shareholders' equity	255,604	115,110	72,017

Quarterly financial information:

The following table highlights NuVista's performance for the eight quarterly reporting periods from March 31, 2004 to December 31, 2005:

	2005				2004			
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Production (boe/d)	11,031	9,874	7,783	7,358	6,703	6,113	4,712	4,651
(thousands, except per share amounts)								
Production revenue	63,315	48,474	30,626	27,265	24,601	22,020	16,982	15,795
Net income	16,247	11,339	6,335	5,585	5,715	4,335	4,540	3,732
Basic	0.34	0.25	0.16	0.14	0.14	0.11	0.12	0.10
Diluted	0.32	0.24	0.15	0.13	0.14	0.11	0.12	0.10

NuVista has seen dramatic growth in its production, revenues and net income over the past eight quarters. Coupled with stronger commodity prices, revenues have increased 301% and net income has increased 335% over this time period.

Critical accounting estimates:

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

(a) Proved oil and natural gas reserves:

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

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

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

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

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

(d) Asset retirement obligations:
The asset retirement obligations are estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment's and reclamations discounted at a credit adjusted risk free rate. The costs are included in property, plant and equipment and amortized over its useful life. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

(e) Income taxes:
The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Update on regulatory and financial reporting matters:

(a) New accounting policies
In April, 2005, a series of new accounting standards were released which established guidance for the recognition and measurement of financial instruments. These new standards include Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurements", and Section 3865 "Hedges". The new standards also resulted in a number of significant consequential amendments to other accounting standards to accommodate the new sections. The standards require all applicable financial instruments to be classified into one of several categories including; financial assets and financial liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The financial instruments are then included on a company's balance sheet and measured at fair value, cost or amortized value, depending on the classification. Subsequent measurement and recognition of changes in value of the financial instruments also depends on the initial classification. These standards are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2006 and must be implemented simultaneously. NuVista will assess the impact, if any, of these standards on the consolidated financial statements in preparation for adoption of the new standards on January 1, 2007.

(b) Internal control reporting:

i. Multilateral Instrument 52-111, Report on Internal Control over Financial Reporting ("ICOFR").

   This instrument sets out the key provisions relating to the evaluation, assessment and certification of ICOFR by the management of NuVista, and the audit by NuVista's external auditors of managements' assessment of ICOFR. The objective of the new rules is to improve the quality and reliability of financial reporting by requiring issuers to evaluate internal control over the preparation of financial statements. Securities regulators have repealed Multilateral 52-111 and ICOFR will be included under the terms of Multilateral Instrument 52-109. These rules are phased in with final implementation of the evaluation of the effectiveness by management of ICOFR for NuVista's December 31, 2007 year end. NuVista is in the process of evaluating the priority areas relating to ICOFR and will be in full compliance by the final phase in date.

ii. Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings.

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by NuVista is accumulated and communicated to the management as appropriate to allow timely decisions regarding required disclosure. NuVista's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded, based on their evaluation as of the end of the period covered by the annual filings, that NuVista's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to NuVista, including its consolidated subsidiaries, is made known to them by others within those entities. It should be noted that while the CEO and CFO believe that NuVista's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they cannot guarantee that the disclosure controls and procedures will prevent all errors and fraud. A control system, 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. 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 and include:

- Operational risk associated with the production of oil and natural gas;
- Reserve risk in respect to the quantity and quality of recoverable reserves;
- Market risk relating to the availability of transportation systems to move the product to market;
- Commodity risk as crude oil and natural gas prices fluctuate due to market forces;
- Financial risk such as volatility of the Canadian/US dollar exchange rate, interest rates and debt service obligations;
- Environmental and safety risk associated with well operations and production facilities;
- Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection relating to the oil and gas industry and the income trust sector; and
- Continued participation of NuVista's lenders.

NuVista seeks to mitigate these risks by:

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

Outlook

NuVista remains committed to the same principles and disciplined growth strategy that has led to considerable success over its first two and one half years. In 2005, NuVista increased its employee base with the establishment of separate technical teams in each of our core areas. We completed two acquisitions, which established a new core area and increased our inventory of drilling opportunities. With an undeveloped land base of 427,500 net acres, the largest drilling inventory in our history and significant financial flexibility, NuVista is well positioned to continue posting strong operational and financial results for 2006 and beyond.

For 2006, NuVista's Board of Directors have approved a capital program between $175 and $190 million, one half of which is allocated to acquisitions and the remainder to the drilling of 140 to 160 wells. With the lack of cold weather experienced in Northwest Saskatchewan, NuVista expects to see a portion of its 2006 first quarter drilling program deferred to the second quarter. While 2006 exit volumes remain on track, this weather delay and adjusting the timing of expected acquisitions until later in the year should result in average production rates between 12,400 boe/d and 13,000 boe/d for 2006. Based on commodity price estimates of US$8.50/mmbtu for Nymex natural gas and US$60.00/bbl for WTI oil, NuVista expects cash flow in the range of $130 million to $140 million ($2.70/share to $2.90/share).

Management's report

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

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments.

Management has established systems of internal controls, which are designed to provide reasonable assurance those assets, are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

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

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

Signed

Alex G. Verge
President and CEO

Signed

Glenn A. Hamilton
Vice President and CFO

February 23, 2006

Auditors' report to the shareholders

We have audited the consolidated balance sheets of NuVista Energy Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed

Chartered Accountants
Calgary, Canada

February 23, 2006

Consolidated balance sheets

December 31,		2005		2004
(thousands)				
Assets				
Current assets:				
Accounts receivable	$	18,844	$	12,071
Oil and natural gas properties and equipment (notes 3 and 4)		359,149		152,021
Goodwill (note 3)		54,439		9,439
	$	432,432	$	173,531
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities (note 2)	$	18,223	$	17,524
Bank loan (note 6)		70,524		28,352
Asset retirement obligations (note 5)		14,790		5,990
Future income taxes (note 8)		73,291		6,555
Shareholders' equity:				
Share capital (note 7)		189,831		89,876
Contributed surplus (note 7)		2,321		1,288
Retained earnings		63,452		23,946
		255,604		115,110
	$	432,432	$	173,531

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Signed

W. Peter Comber
Director

Signed

Pentti O. Karkkainen,
Director

Consolidated statements of operations and retained earnings

Year ended December 31,		2005		2004
(thousands, except per share amounts)				
Revenues:				
Production	$	169,680	$	79,398
Royalties		(40,331)		(17,701)
Transportation costs		(3,064)		(1,630)
		126,285		60,067
Expenses:				
Operating		16,696		8,392
General and administrative		1,823		834
Interest		2,231		574
Stock-based compensation		1,516		1,035
Depreciation, depletion and accretion		40,411		19,727
		62,677		30,562
Income before income and other taxes:		63,608		29,505
Income and other taxes (note 8)		24,102		11,183
Net income		39,506		18,322
Retained earnings, beginning of year		23,946		5,624
Retained earnings, end of year	$	63,452	$	23,946
Net income per share – basic	$	0.90	$	0.47
Net income per share – diluted	$	0.87	$	0.46

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

Year ended December 31,	2005	2004
(thousands)		
Cash provided by (used in):		
Operating Activities:		
Net income	$ 39,506	$ 18,322
Items not requiring cash from operations:		
Depreciation, depletion and accretion	40,411	19,727
Stock-based compensation	1,516	1,035
Future income taxes	23,448	10,787
Asset retirement expenditures	(233)	(131)
Increase in non-cash working capital items	(2,929)	(6,801)
	101,719	42,939
Financing Activities:		
Issuance (repurchase) of share capital, net of share issue costs	97,760	(24)
Increase in bank loan	42,172	21,424
	139,932	21,400
Investing Activities:		
Business acquisitions (note 3)	(150,716)	(22,882)
Oil and natural gas properties and equipment	(88,362)	(45,368)
Proceeds on disposal of oil and natural gas properties and equipment	572	102
(Increase) decrease in non-cash working capital items	(3,145)	3,809
	(241,651)	(64,339)
Increase (decrease) in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

Years ended December 31, 2005 and 2004.

1. Significant accounting policies:

NuVista Energy Ltd. ("NuVista") was established with an effective date of July 2, 2003 under a Plan of Arrangement entered into by Bonavista Energy Trust (the "Trust"), Bonavista Petroleum Ltd. ("Bonavista") and NuVista. Under the Plan of Arrangement, various assets of Bonavista comprising of certain producing and exploration assets were transferred to NuVista.

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

a) Principles of consolidation:

The consolidated financial statements include the accounts of NuVista and its wholly owned subsidiaries and proportionate share of its partnerships, which are jointly owned with Bonavista.

b) Oil and natural gas properties and equipment:

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

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

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

c) Joint venture accounting:

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

d) Goodwill:

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

e) Asset retirement obligations:

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

f) Revenue recognition:

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

g) Financial instruments:

(i) Hedge relationships:

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

(ii) Credit risk:

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

h) Stock-based compensation:

NuVista has equity incentive plans, which are described in note 7. These stock-based compensation plans for employees do not involve the direct award of stock, or call for the settlement in cash or other assets. Upon the exercise of stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Compensation costs are recognized in the financial statements for the performance shares. NuVista uses the fair value method for valuing stock option grants. Under this method, the compensation cost attributable to all share options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus.

i) Income taxes:

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

j) Per share amounts:

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

2. Relationship with Bonavista Petroleum Ltd.:

Under the Plan of Arrangement with Bonavista, NuVista entered into a Technical Services Agreement with Bonavista. Under this agreement, Bonavista receives payment for certain technical and administrative services provided by it to NuVista on a cost recovery basis. Pursuant to the Technical Services Agreement, there were fees of $1.7 million charged relating to general and administrative activities and $180,000 of fees were charged relating to capital expenditure activities for the year ended December 31, 2005 (2004 – $1.3 million and $750,000, respectively). As at December 31, 2005 amounts payable to Bonavista were $1.3 million (2004 – $3.5 million).

3. Business acquisitions:

a) Northwest Saskatchewan properties:

On August 4, 2005, NuVista completed the acquisition of certain natural gas weighted properties in northwest Saskatchewan for a total purchase price of approximately $150.7 million. The purchase price is estimated by management based on currently available information. Amendments may be made to the purchase equation as the cost estimates and tax balances are finalized. NuVista purchased these properties through a series of transactions, with the assets being acquired in an existing partnership owned approximately 76% by NuVista and 24% by Bonavista Petroleum. The acquisition has been accounted for using the purchase method, with results of operations included from the date of acquisition. The purchase equation, which reflects the NuVista portion of the acquisition, is as follows:

(thousands)		Amount
Net assets acquired:		
Oil and natural gas properties	$	153,635
Goodwill		45,000
Asset retirement obligations		(2,919)
Future income taxes		(45,000)
Net assets acquired	$	150,716
Purchase consideration:		
Cash	$	150,716
Total purchase consideration	$	150,716

b) Grid Resources Ltd.:

On July 29, 2004, NuVista acquired all of the issued and outstanding shares of Grid Resources Ltd. ("Grid"), a private oil and natural gas company. NuVista purchased Grid through a series of transactions, which included the disposition of certain non-core assets to a private company and the residual assets being acquired in an existing partnership, owned approximately 76% by NuVista and 24% by Bonavista Petroleum. The acquisition has been accounted for using the purchase method, with results of operations included from the date of acquisition. The purchase equation, which reflects the NuVista portion of the acquisition, is as follows:

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

4. Oil and natural gas properties and equipment:

December 31, 2005	Cost	Accumulated depreciation and depletion	Net book value
(thousands)			
Oil and natural gas properties	$ 354,484	$ 59,989	$ 294,495
Facilities	69,618	4,964	64,654
	$ 424,102	$ 64,953	$ 359,149

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

Unproved property costs of $28.3 million were excluded from the depreciation and depletion calculation for the year ended December 31, 2005 (2004 – $15.9 million). Future development costs of $5.3 million (2004 – $5.3 million) were included in the depreciation and depletion calculation.

NuVista has performed the ceiling test under AcG-16 as of December 31, 2005. The impairment test was calculated using the benchmark reference prices at January 1 for the years 2006 to 2011 and, thereafter, adjusted for commodity differentials specific to NuVista:

Benchmark reference price forecasts:

Year	2006	2007	2008	2009	2010	2011	Thereafter (1)
WTI (US$/bbl)	57.00	55.00	51.00	48.00	46.50	45.00	45.00
AECO (Cdn$/mmbtu)	10.60	9.25	8.00	7.50	7.20	6.90	6.90

(1) Escalated at 2% per year thereafter.

5. Asset retirement obligations:

NuVista's asset retirement obligations result from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. NuVista estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $79.5 million (2004 – $31.0 million), which will be incurred over the next 51 years. The majority of the costs will be incurred between 2010 and 2036. A credit-adjusted risk-free rate of 8% (2004 – 8%) and an inflation rate of 2% (2004 – 1.5%) was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

December 31,	2005	2004
(thousands)		
Balance, beginning of year	$ 5,990	$ 3,027
Accretion expense	767	295
Liabilities incurred	2,795	1,808
Liabilities acquired	4,271	991
Liabilities settled	(233)	(131)
Change in assumed inflation rate	1,200	–
Balance, end of year	$ 14,790	$ 5,990

6. Bank loan:

NuVista's revolving bank loan facility is $130 million and provides that borrowing may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a stamping fee. The loan is secured by a first floating charge debenture, general assignment of book debts and NuVista's oil and natural gas properties and equipment. The facility is subject to an annual review by the lenders, at which time a lender can request conversion to a term loan for one year. Under the term period, no principal payments would be required until June 30, 2007 or later, after the annual review. As such, this loan facility is classified as a long-term liability. Cash paid for interest was $2.2 million for the year ended December 31, 2005 (2004 – $560,000).

7. Share capital:

a) Authorized:

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

b) Issued:

(i) Common Shares:

(thousands)	Number		Amount
Balance, December 31, 2003	37,338	$	65,920
Issued on acquisition of Grid Resources Ltd. (note 3 (b))	3,000		23,760
Conversion of Class B Performance Shares	223		3
Exercise of stock options	4		25
Stock-based compensation	–		208
Reacquired and cancelled	(6)		(15)
Cost associated with shares issued, net of future tax benefit	–		(34)
Balance, December 31, 2004	40,559		89,867
Issued for cash	7,500		102,109
Conversion of Class B Performance Shares	249		3
Exercise of stock options	68		449
Stock-based compensation	–		483
Reacquired and cancelled	(16)		(34)
Cost associated with shares issued, net of future tax benefit	–		(3,052)
Balance, December 31, 2005	48,360	$	189,825

(ii) Class B Performance Shares:

Each Class B Performance Share was issued for a price of $0.01 per share and is convertible into the fraction of a Common Share equal to the closing trading price of the Common Shares on the Toronto Stock Exchange on the day prior to such conversion less $2.00, if positive, divided by the Common Share closing price. The Class B Performance Shares will automatically convert into Common Shares as to 25% of the Class B Performance Shares outstanding on a pro-rata basis from holders on each of July 1, 2004, 2005, 2006 and 2007. If the NuVista closing price less $2.00 is not positive on any conversion date, NuVista will, subject to applicable law, redeem the Class B Performance Shares that would have otherwise been converted at the redemption price of $0.01 per share. The fair value of each Class B Performance Share was $2.41 per share, at date of issuance, using the Black-Scholes model with the variables described in note 7(f). This amount is amortized over the life of the Class B Performance Shares and is included in stock-based compensation expense. Upon conversion or exercise the related charge to stock-based compensation is reclassified to Common Shares.

(thousands)	Number		Amount
Balance, December 31, 2003	1,196	$	12
Converted to Common Shares	(297)		(3)
Reacquired and cancelled	(15)		–
Balance, December 31, 2004	884	$	9
Converted to Common Shares	(292)		(3)
Reacquired and cancelled	(32)		–
Balance, December 31, 2005	560	$	6

c) Contributed surplus:

(thousands)		Amount
Balance, December 31, 2003	$	461
Stock-based compensation		1,035
Conversion of Class B Performance Shares and exercise of stock options		(208)
Balance, December 31, 2004		1,288
Stock-based compensation		**1,516**
Conversion of Class B Performance Shares and exercise of stock options		**(483)**
Balance, December 31, 2005	**$**	**2,321**

d) Per share amounts:

During the year ended December 31, 2005, there were 43,764,739 (2004 – 38,725,401) weighted average shares outstanding. On a diluted basis, there were 45,388,708 (2004 – 39,897,355) weighted average shares outstanding after giving effect for dilutive stock options.

e) Stock options:

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

The summary of stock options transactions for the years ended December 31, 2005 and 2004 is as follows:

	2005			2004		
	Number		**Weighted average exercise price**	Number		Weighted average exercise price
Outstanding, beginning of year	**1,710,037**	**$**	**6.82**	1,365,300	$	6.35
Granted	**833,000**		**12.79**	381,100		8.49
Exercised	**(67,901)**		**(6.62)**	(4,013)		(6.36)
Cancelled	**(41,599)**		**(6.57)**	(32,350)		(6.30)
Outstanding, end of year	**2,433,537**	**$**	**8.87**	1,710,037	$	6.82

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2005:

	Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding at year-end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at year-end		Weighted average exercise price
$ 6.30 to 8.50	1,553,037	2.7	6.74	678,387	$	6.57
$ 9.90 to 18.10	880,500	4.3	12.63	10,000		9.91
$ 6.30 to 18.10	2,433,537	3.3	8.87	688,387	$	6.62

f) Stock-based compensation:

The Company uses the fair value based method for the determination of the stock-based compensation costs. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. In the pricing model, the risk free interest rate was 3.5%; volatility of 25%; and an expected life of 4.5 years and dividends of nil. The weighted average fair value of stock options granted for the year ended December 31, 2005 was $2.77 per share (2004 – $2.12 per share).

8. Income and other taxes:

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

December 31,		2005		2004
Expected tax rate		38.6%		39.0%
(thousands)				
Expected tax expense	$	24,553	$	11,507
Non deductible crown payments, net		4,008		3,753
Resource allowance		(4,613)		(4,197)
Effect of change in tax rate		(1,004)		(680)
Other		(81)		–
Stock-based compensation		585		404
Capital taxes		654		396
Provision for income and other taxes	$	24,102	$	11,183
The provision for taxes consists of:				
Capital taxes	$	654	$	396
Future income taxes		23,448		10,787
Provision for income and other taxes	$	24,102	$	11,183

The significant components of the future income taxes as at December 31, 2005 and 2004 are as follows:

		2005		2004
(thousands)				
Oil and natural gas properties	$	77,462	$	8,196
Facilities and well equipment		2,667		789
Asset retirement obligations		(5,473)		(2,157)
Share issue costs		(1,365)		(198)
Other		–		(75)
Future income taxes	$	73,291	$	6,555

Cash taxes paid for the year ended December 31, 2005 was $369,000 (2004 – $125,000).

9. Hedging activities:

a) Financial instruments:

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

WTI	Average price ($/bbl)	Term
250 bbls/d	Cdn$60.00 – Cdn$75.00	January 1, 2006 – March 31, 2006
250 bbls/d	U.S.$60.00 – U.S.$84.00	January 1, 2006 – March 31, 2006
250 bbls/d	Cdn$61.00 – Cdn$75.00	April 1, 2006 – June 30, 2006

As at December 31, 2005, NuVista has hedged by way of costless collars the following natural gas contracts:

AECO	Average price (Cdn$/gj)	Term
2,500 gj/d	$7.00 – $11.15	November 1, 2005 – March 31, 2006
5,000 gj/d	$8.25 – $12.33	April 1, 2006 – October 31, 2006

As at December 31, 2005, the market deficiency of the financial instruments was approximately $500,000.

b) Physical purchase contracts:

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

AECO	Average Price (Cdn$/gj)	Term
17,500 gj/d	$8.89 – $13.65	November 1, 2005 – March 31, 2006
15,000 gj/d	$7.50 – $10.99	April 1, 2006 – October 31, 2006

Key abbreviations

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

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

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 H. 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

Robert F. Froese,
Vice President, Finance

Steven J. Dalman,
Vice President, Engineering

Patrick Miles,
Vice President, Exploration

Gordon Timm,
Vice President, Land

D. Chris McDavid,
Production Manager

Head office

700, 311 – 6th Avenue SW
Calgary, Alberta T2P 3H2
Telephone: (403) 538-8500
Facsimile: (403) 538-8505
Email: inv_rel@nuvistaenergy.com
Website: www.nuvistaenergy.com

Auditors

KPMG LLP
Chartered accountants
Calgary, Alberta

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
Toronto-Dominion Bank
Calgary, Alberta

Engineering consultants

GLJ Petroleum Consultants 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"**

For further information contact

Alex G. Verge,
President and CEO
(403) 538-8501

Glenn A. Hamilton,
Vice President and CFO
(403) 213-4302

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NuVista Energy Ltd

700, 311 – 6th Avenue SW
Calgary, Alberta T2P 3H2

Telephone: (403) 538-8500
Facsimile: (403) 538-8505

www.nuvistaenergy.com