



## ANNOUNCES 2008 YEAR END RESULTS

Press Release March 5, 2009

Calgary – NuVista Energy Ltd. is pleased to announce its financial and operating results for the three months and year ended December 31, 2008 as follows:

### Corporate Highlights

	Three months ended December 31,			Years ended December 31,		
	2008	2007	% Change	2008	2007	% Change
<b>Financial</b>						
(\$ thousands, except per share)						
Production revenue	106,982	53,790	99	515,338	212,386	143
Funds from operations <sup>(1)</sup>	58,878	29,870	97	281,029	113,793	147
Per share – basic	0.74	0.57	30	3.77	2.21	71
Per share – diluted	0.74	0.57	30	3.75	2.19	71
Net earnings	24,443	11,063	121	88,195	26,237	236
Per share – basic	0.31	0.21	48	1.18	0.51	131
Per share – diluted	0.31	0.21	48	1.18	0.51	131
Total assets				1,407,296	683,165	106
Long-term debt, net of working capital				329,707	180,322	83
Long-term debt, net of adjusted working capital <sup>(1)</sup>				341,266	178,618	91
Shareholders' equity				811,300	370,292	119
Net capital expenditures	49,166	43,810	12	200,737	164,008	22
Corporate acquisition (non-cash)	-	-	-	594,944	-	-
Weighted average common shares outstanding (thousands):						
Basic	79,161	52,602	50	74,468	51,375	45
Diluted	79,197	52,835	50	75,021	51,962	44
<b>Operating</b>						
(boe conversion – 6:1 basis)						
Production						
Natural gas (mmcf/d)	109.8	66.7	65	104.9	66.9	57
Natural gas liquids (bbls/d)	2,760	336	721	2,357	317	644
Oil (bbls/d)	4,633	2,802	65	4,472	2,381	88
Total oil equivalent (boe/d)	25,688	14,251	80	24,320	13,851	76
Product prices <sup>(2)</sup>						
Natural gas (\$/mcf)	7.80	6.30	24	8.39	6.77	24
Natural gas liquids (\$/bbl)	43.41	73.92	(41)	70.09	63.31	11
Oil (\$/bbl)	47.44	55.03	(14)	77.00	52.40	47
Operating expenses						
Natural gas and natural gas liquids (\$/mcf)	1.21	1.06	14	1.18	1.06	11
Oil (\$/bbl)	16.95	10.12	67	14.16	11.37	25
Total oil equivalent (\$/boe)	8.98	7.11	26	8.37	7.23	16
General and administrative expenses (\$/boe)	1.29	1.23	5	1.35	1.04	30
Funds from operations netback (\$/boe) <sup>(1)</sup>	24.93	22.78	9	31.58	22.51	40

#### NOTES:

- (1) Funds from operations, funds from operations per share, funds from operations netback and adjusted working capital are not defined by GAAP in Canada and are referred to as non-GAAP measures. Funds from operations are based on cash flow from operating activities as per the statement of cash flows before changes in non-cash working capital 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. Funds from operations netback equals the total of revenues including realized commodity derivative gains/losses less royalties, transportation, general and administrative, restricted share units and interest expenses and cash taxes calculated on a boe basis. Adjusted working capital excludes the current portion of future income tax asset or liability and commodity derivatives asset or liability. Total boe is calculated by multiplying the daily production by the number of days in the period. For more details on non-GAAP measures, refer to "Management's Discussion and Analysis" section of this press release.
- (2) Product prices include realized gains/losses on commodity derivatives.

**Operating (continued)**

	2008	2007	% Change
Undeveloped land, net acres			
W3/W4 meridian core regions	517,000	587,000	(12)
W5/W6 meridian core regions	251,000	22,000	1040
Total	768,000	609,000	26
Average working interest	79%	77%	
Wells drilled gross (net)			
Total	115 (86.0)	138 (107.1)	(17)
Natural gas	65 (45.7)	75 (57.8)	(13)
Oil	37 (30.8)	46 (35.2)	(20)
Dry holes	13 (9.5)	16 (13.3)	(19)
Company interest reserves <sup>(1)</sup>			
Proved plus probable			
Natural gas (bcf)	340.3	181.4	88
Oil and liquids (mbbls)	20,962	9,560	119
Total barrels of oil equivalent (mboe)	77,680	39,795	95
% proved producing	55%	58%	(5)
% total proved	68%	71%	(4)
% probable	32%	29%	10
Net present value of future cash flows before tax (\$ millions) <sup>(2)</sup>			
@ 10% discount rate	1,350.7	660.7	104
@ 15% discount rate	1,109.7	561.9	97
Finding development and acquisition costs (\$/boe) <sup>(3) (5)</sup>			
Total proved	24.28	20.63	18
Total proved plus probable	18.51	17.07	8
Reserve life index (years) <sup>(5)</sup>			
Total proved	5.7	5.1	12
Total proved plus probable	8.3	7.3	14
Recycle ratio <sup>(4) (5)</sup>			
Total proved	1.3	1.1	18
Total proved plus probable	1.7	1.3	31
Net asset value per share <sup>(2) (5)</sup>	\$14.20	\$10.37	37

(1) Company interest reserves are gross working interest reserves and royalty interest reserves before the deduction of royalties.

(2) The estimated net present value of future cash flows disclosed do not represent fair market value.

(3) Includes changes in future development capital expenditures.

(4) Based on funds from operations netback per boe divided by finding, development and acquisition costs per boe.

(5) For more details, refer to "Management's Discussion and Analysis" section in this press release.

**MESSAGE TO SHAREHOLDERS**

NuVista Energy Ltd. ("NuVista") is pleased to report to its shareholders NuVista's financial and operating results for the three months and year ended December 31, 2008. For NuVista, 2008 was a year of significant achievements, in particular, the successful business combination with Rider Resources Ltd. ("Rider"). We achieved record reserves, production, funds from operations and net earnings both on a total and a per share basis. In addition, we acquired undeveloped lands with scalable high gas-in-place resource plays that should position us for sustained, longer term growth. As we enter 2009, we enter a period of significantly lower commodity prices and economic uncertainty which is having a significant impact on all businesses. In these difficult times, our disciplined approach to implementing our capital programs while maintaining financial flexibility and our ability to continuously adapt to the changing economic environment will differentiate us from our peers.

In March 2008, NuVista completed the business combination with Rider resulting in NuVista becoming an intermediate company with both a diversified asset base and technical expertise in two core regions. The combined entity continues to focus on creating shareholder value through profitable growth in reserves per share and production per share. The Rider asset base complements NuVista's existing business strategy which emphasizes long-term and profitable growth based on an acquire and develop business model in multi-zone areas, with a focus on low operating costs and high working interests. This business combination has balanced NuVista's production between the W5/W6 meridian and W3/W4 meridian core regions and increased NuVista's undeveloped land inventory with increased exposure to deeper natural gas opportunities and high gas-in-place resource plays.

NuVista achieved strong operating and financial results in 2008. As a result of our disciplined business model and detailed approach to planning, we achieved our production and debt reduction guidance targets that were issued in January 2008 on the announcement of the Rider transaction. We achieved record 2008 annual production and maintained our production levels throughout the year while spending approximately \$81 million less than our funds from operations. Our fourth quarter average production rate of 25,688 boe/d was slightly below budget due to the impact of cold weather in December and the delayed tie-in of approximately 900 boe/d of production until February 2009. With declining commodity prices and the uncertain economic environment experienced throughout the fourth quarter, we carefully managed our capital expenditures ensuring that we maintained our financial flexibility.

On October 2, 2008, NuVista announced an increase of approximately \$30 million to our capital program to be invested in our future. We acquired approximately 100 sections of undeveloped land in our Wapiti core area and now have established a significant acreage position with a multi-year prospect inventory, in three high gas-in-place resource plays. Although prudent financial management will limit our exposure in these plays in 2009 to testing concepts for planning purposes, successful test wells in any of these plays will have a material impact on our exploration and development plans. Early success on these acquired lands has resulted in the drilling and tie-in of four Dunvegan gas wells and along with the installation of field compression will increase production by approximately 1,200 boe/d in March 2009.

Significant highlights for NuVista in 2008:

- Average production for the three months ended December 31, 2008, of 25,688 boe/d compared to 14,251 boe/d in the same period in 2007. In addition, 2008 average production increased to a record level of 24,320 boe/d from 13,851 boe/d in 2007. Average production per million shares outstanding increased by 21% to 327 boe/d in 2008 from 270 boe/d in 2007. Current production is approximately 27,000 boe/d;
- Achieved finding, development and acquisition costs (including changes in future development capital) on a proved plus probable basis of \$18.51/boe (2007 - \$17.07/boe). This resulted in a proved plus probable recycle ratio of 1.7:1 for 2008. Excluding approximately \$30 million of undeveloped land purchased in the second half of 2008 relating to high gas-in-place resource plays, which were not assigned any reserves, NuVista's finding, development and acquisition costs on a proved plus probable basis were \$17.87/boe;
- Proved plus probable reserves per share increased by 29% to 0.98 boe at December 31, 2008, from 0.76 boe at December 31, 2007;
- Drilled 23 wells resulting in 14 natural gas wells and nine oil wells in the fourth quarter of 2008. For the year ended December 2008, NuVista drilled 115 wells, resulting in 65 natural gas wells, 37 oil wells and 13 dry holes;
- Increased our undeveloped land position in our W5/W6 meridian core region by over ten times, completing our transition to a deep gas explorer and producer;
- Entered into an agreement to purchase approximately 1,600 boe/d of production, primarily in our Ferrier/Sunchild, Wapiti and Northwest Saskatchewan core areas for approximately \$55 million. This acquisition closed on January 29, 2009 at attractive acquisition metrics of approximately 34,000 per flowing boe/d and \$13 per boe of proven plus probable reserves. At December 31, 2008, NuVista estimates proved plus probable reserves of 4.5 million boes associated with this acquisition (these reserves are not included in NuVista's reported year end reserves); and
- NuVista ended 2008 with debt, net of adjusted working capital, of \$341 million. At December 31, 2008, NuVista had a ratio of debt, net of adjusted working capital to annualized fourth quarter funds from operations of 1.5:1.

Through challenging and at times difficult industry conditions, NuVista continues to maintain its disciplined approach to its business. We employ an "acquire and develop" business model focused on reserves per share and production per share growth while maintaining our financial flexibility. We have the ability to adjust capital spending levels and closely manage our debts levels and financial flexibility as we control the timing of all significant capital projects. We pride ourselves in being able to make business decisions based on timely and accurate data. This approach has enabled us to adapt to rapidly changing economic and market conditions. Due to low commodity prices and an uncertain economic environment, prudent financial management requires a responsive and flexible capital program in 2009, along with continuing to plan our future.

## 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, 2008. The following MD&A of financial condition and results of operations was prepared at and is dated March 5, 2009. Our audited consolidated financial statements, Annual Report, Annual Information Form and other disclosure documents for 2008 are available through our filings on SEDAR at [www.sedar.com](http://www.sedar.com) or can be obtained from our website at [www.nuvistaenergy.com](http://www.nuvistaenergy.com).

**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. In certain circumstances natural gas liquid volumes have been converted to thousand cubic feet equivalent ("mcfte") on the basis of one barrel of natural gas liquids to six thousand cubic feet. Boe's and mcfte's may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

**Forward-looking statements** – *Certain information set forth in this document, including management's assessment of NuVista's future plans and operations, forecast production and growth and production and reserves, drilling plans and results, NuVista's planned capital budget, the timing, allocation and efficiency of NuVista's capital program and the results therefrom, forecast funds from operations and targeted operating costs, expectations regarding the payment of future taxes, the timing of the completion of NuVista's lenders annual review of NuVista's reserves and financial results and the effect of NuVista's credit facility, expectations regarding future commodity prices, netbacks and industry conditions, contain forward-looking statements, which are provided to allow investors to better understand our business. 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, changes in environmental regulations, tax laws and royalties and the ability to access sufficient capital from internal sources and bank and equity markets. 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, except as required by law.*

**Non-GAAP measurements** – *Within MD&A, references are made to terms commonly used in the oil and natural gas industry. Management uses funds from operations to analyze operating performance and leverage. Funds from operations as presented, does not have any standardized meaning prescribed by 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, per the statement of cash flows, 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. Funds from operations netbacks equal total revenue including realized commodity derivative gains/losses less royalties, transportation, operating costs, general and administrative, restricted share unit and interests expense and cash taxes. Management also uses field netbacks to analyze operating performance and adjusted working capital to analyze leverage. Field netbacks and adjusted working capital as presented, do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Field netbacks equal the total of revenue including realized commodity derivative gains/losses less royalties, transportation and operating costs. Adjusted working capital equals working capital excluding the current portions of future income tax asset or liability and commodity derivative asset or liability. Total boe is calculated by multiplying the daily production by the number of days in the period.*

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

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
Cash provided by operating activities	44,923	26,429	232,123	103,184
Add back:				
Asset retirement expenditures	670	787	2,516	1,589
Change in non-cash working capital	13,285	2,654	46,390	9,020
Funds from operations	58,878	29,870	281,029	113,793

**Change in presentation of MD&A disclosure for natural gas liquids** – Prior to 2008, our MD&A disclosures have combined crude oil volumes and natural gas liquid volumes, as natural gas liquid volumes were not significant. With the NuVista and Rider Resources Ltd. ("Rider") business combination ("Rider Acquisition"), NuVista has significantly increased its production of natural gas liquids and has determined that it is more appropriate in certain circumstances to include these volumes with natural gas volumes on a mcf basis. Comparative MD&A disclosure has been restated to reflect this change. This change only impacts the classification of natural gas liquids and does not impact reported results.

**Plan of arrangement with Rider Resources Ltd.** – On March 4, 2008, NuVista closed a business combination with Rider and a private placement financing with the Ontario Teachers' Pension Plan Board ("OTPP"). The Rider Acquisition resulted in the combination of NuVista and Rider, pursuant to which all of the issued and outstanding Rider shares were exchanged for common shares of NuVista. Rider shareholders received, for each Rider share held, 0.3540 of a NuVista share. The results of operations from the Rider assets have been included effective March 4, 2008.

**Operating activities** – For the year ended December 31, 2008, NuVista drilled 115 (86 net) wells, resulting in 65 natural gas wells, 37 oil wells and 13 dry holes, for an overall success rate of 89%. NuVista operated 99 of the wells drilled. During the fourth quarter of 2008, NuVista participated in 23 wells resulting in 14 natural gas wells and 9 oil wells. During the fourth quarter, NuVista drilled 9 gas wells in the Wapiti core area and 4 oil wells in each of our Provost and Central Saskatchewan core areas. With lower commodity prices and the closing of a property acquisition on January 29, 2009, NuVista will maintain its financial flexibility by reducing our drilling program to approximately 10 wells in the first quarter of 2009.

**Reserves** – NuVista's 2008 year end total proved reserves were 52.8 mmboc or an 88% increase over the closing balance at year end 2007. NuVista's proved plus probable reserves increased by 95% to 77.7 mmboc compared to 39.8 mmboc at year end 2007. Finding, development and acquisition costs in 2008, including an adjustment for the change in future development capital expenditures and after revisions, were \$24.28/boc on a proved basis and \$18.51/boc on a proved plus probable basis. Excluding acquisitions, finding and development costs, on a proved plus probable basis after revisions and changes in future development capital expenditures were \$19.53/boc. In addition, excluding approximately \$30 million of undeveloped land purchased in the second half of 2008 relating to potential high gas-in-place resource plays (which were not assigned any reserves), NuVista's finding, development and acquisition costs on a proved plus probable basis were \$17.87/boc. Proved plus probable reserve downward revisions amounted to only 2% of the opening balance.

The capital program for 2008 resulted in a funds from operations netback recycle ratio of 1.7 on a proved plus probable basis. NuVista's reserve life index, based upon production capability at December 31, 2008, was 5.7 years for total proved reserves and 8.3 years for proved plus probable reserves. This compares with 5.1 years and 7.3 years respectively at December 31, 2007. All of NuVista's reserves, as at December 31, 2008, were evaluated by NuVista's independent engineering consultants, GLJ Petroleum Consultants Ltd.

The following table outlines NuVista's finding, development and acquisition costs and recycle ratio:

	2006 – 2008 <sup>(2)</sup>		2008 <sup>(2)</sup>		2007 <sup>(2)</sup>	
	Proved	Proved plus Probable	Proved	Proved plus Probable	Proved	Proved plus Probable
After reserve revisions (\$/boe)						
Finding, development and acquisition cost <sup>(1)</sup>	24.15	18.50	24.28	18.51	20.63	17.07
Finding and development costs <sup>(1)</sup>	23.36	18.78	24.42	19.53	21.16	18.43
Acquisition costs	24.64	18.32	24.24	18.14	19.37	14.10
Finding, development & acquisition recycle ratio						
Field netback	1.3	1.6	1.4	1.9	1.2	1.5
Funds from operations netback	1.1	1.5	1.3	1.7	1.1	1.3
Before reserve revisions (\$/boe)						
Finding, development and acquisition cost <sup>(1)</sup>	24.67	17.84	25.13	18.36	20.19	14.75

(1) Including changes in future development capital expenditures.

(2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during the year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for the year.

Additional reserve disclosure tables, as required under NI 51-101, will be contained in the Annual Information Form to be filed on SEDAR on or before March 31, 2009. Reserves have been calculated under the Alberta New Royalty Framework regime ("NRF") including the transitional rules announced in November 2008. The reserve estimates contained in the following table are "NuVista's company interest reserves" which are NuVista's working interest and royalty interest reserves before the deduction of royalties:

<b>Reserves</b>	Natural gas	Oil and natural gas liquids	Total oil equivalent
	(bcf)	(mmbbls)	(mboe)
Total Proved			
Balance, December 31, 2007	127.4	6,907	28,137
Exploration and development	29.2	2,279	7,145
Revisions	1.2	494	697
Acquisitions	110.6	7,319	25,756
Dispositions	-	-	-
Production	(38.4)	(2,501)	(8,902)
Balance, December 31, 2008	230.0	14,498	52,833
Total Proved plus Probable			
Balance, December 31, 2007	181.4	9,560	39,795
Exploration and development	55.9	3,869	13,189
Revisions	(7.6)	454	(804)
Acquisitions	149.0	9,579	34,403
Dispositions	-	-	-
Production	(38.4)	(2,501)	(8,902)
Balance, December 31, 2008	340.3	20,961	77,681

On January 29, 2009 NuVista acquired properties in its Ferrier/Sunchild, Wapiti and Northwest Saskatchewan core areas with proved plus probable reserves, estimated by management at December 31, 2008, of 4.5 million boes. These acquired reserves are not included in NuVista's year end reported reserves data above.

## Net Asset Value Per Share

(\$ thousands)	December 31,	
	2008	2007
Net present value of oil and gas reserves, discounted at 10%, before tax <sup>(1)</sup>	\$ 1,350,700	\$ 660,700
Undeveloped land <sup>(2)</sup>	114,581	64,288
Cash, accounts receivable and prepaids	64,851	30,463
Accounts payable and accrued liabilities	(50,710)	(31,972)
Long-term debt	(355,407)	(177,109)
Net asset value	\$ 1,124,015	\$ 546,370
Shares outstanding (000's)	79,164	52,704
Net asset value (\$/Share)	\$ 14.20	\$ 10.37

(1) Company interest reserves, as at December 31, 2008, as evaluated by GLJ Petroleum Consultants Ltd.

(2) Undeveloped land value has been calculated based on a value of \$100/acre for our W3/W4 meridian core region undeveloped lands and \$250/acre for our W5/W6 meridian core region undeveloped lands.

## Production

	Years ended December 31,		
	2008	2007	% Change
Natural gas (mcf/d)	104,946	66,919	57
Liquids (bbls/d)	2,357	317	644
Oil (bbls/d)	4,472	2,381	88
Total oil equivalent (boe/d)	24,320	13,851	76

  

	Three months ended December 31,		
	2008	2007	% Change
Natural gas (mcf/d)	109,772	66,680	65
Liquids (bbls/d)	2,760	336	721
Oil (bbls/d)	4,633	2,802	65
Total oil equivalent (boe/d)	25,688	14,251	80

For the year ended December 31, 2008, NuVista's average production was 24,320 boe/d, comprised of 104,946 mcf/d of natural gas, 2,357 bbls/d of associated natural gas liquids ("liquids") and 4,472 bbls/d of oil, which represents a 76% increase over the same period in 2007. This increase is primarily due to the inclusion of production from the Rider Acquisition in March 2008 and the success of our 2008 drilling program. For the fourth quarter of 2008, NuVista's average production was 25,688 boe/d which was comprised of 109,772 mcf/d of natural gas, 2,760 bbls/d of associated natural gas liquids and 4,633 bbls/d of oil and represents an 80% increase over the same period in 2007. This increase was also primarily due to the Rider Acquisition. Our fourth quarter average production rate and exit rate were slightly below budget due to the impact of cold weather on production in December and the delay in the tie-in of two significant wells until February 2009. Our current production is 27,000 boe/d.

## Revenues

(\$ thousands, except per unit amounts)	Years ended December 31,					
	2008		2007		% Change	
	\$	\$/mcf	\$	\$/mcf	\$	\$/mcf
Natural gas						
Production revenue	320,346	8.34	160,145	6.56	100	27
Realized gain on commodity derivatives	1,869	0.05	5,248	0.21	(64)	(76)
Total	322,215	8.39	165,393	6.77	95	24
Liquids	\$	\$/bbl	\$	\$/bbl	\$	\$/bbl
Production revenue	60,463	70.09	7,313	63.31	727	11
Realized gain on commodity derivatives	-	-	-	-	-	-
Total	60,463	70.09	7,313	63.31	727	11
Oil						
Production revenue	134,529	82.19	44,928	51.69	199	59
Realized gain (loss) on commodity derivatives	(8,497)	(5.19)	619	0.71	(1,473)	(831)
Total	126,032	77.00	45,547	52.40	177	47

Three months ended December 31,

(\$ thousands, except per unit amounts)	2008		2007		% Change	
	\$	\$/mcf	\$	\$/mcf	\$	\$/mcf
Natural gas						
Production revenue	76,856	7.61	37,543	6.12	105	24
Realized gain on commodity derivatives	1,908	0.19	1,132	0.18	69	6
Total	78,764	7.80	38,675	6.30	104	24
Liquids	\$	\$/bbl	\$	\$/bbl	\$	\$/bbl
Production revenue	11,024	43.41	2,284	73.92	383	(41)
Realized gain on commodity derivatives	-	-	-	-	-	-
Total	11,024	43.41	2,284	73.92	383	(41)
Oil						
Production revenue	19,102	44.81	13,963	54.16	37	(17)
Realized gain on commodity derivatives	1,119	2.63	224	0.87	400	202
Total	20,221	47.44	14,187	55.03	43	(14)

For the year ended December 31, 2008, revenues including realized commodity derivative gains and losses were \$508.7 million, a 133% increase from \$218.3 million, for the same period in 2007. The increase in revenues for 2008 compared to the same period of 2007 is primarily due to the 76% increase in production and a 38% increase in realized prices. These revenues were comprised of \$322.2 million of natural gas revenue, \$60.5 million of liquids revenue and \$126.0 million of oil revenue. The increase in average realized commodity prices is comprised of a 24% increase in the natural gas price to \$8.39/mcf from \$6.77/mcf, an 11% increase in the liquids price to \$70.09/bbl from \$63.31/bbl and an increase of 47% in the oil price to \$77.00/bbl from \$52.40/bbl.

For the three months ended December, 2008, revenues including realized commodity derivative gains and losses were \$110.0 million, a 99% increase from \$55.1 million for the same period in 2007. The increase in revenues for the three months ended December 31, 2008 compared to the same period of 2007 is primarily due to the 80% increase in production and a 10% increase in realized prices. These revenues were comprised of \$78.8 million of natural gas revenue, \$11.0 million of liquids revenue, and \$20.2 million of oil revenue. The increase in average realized commodity prices is comprised of a 24% increase in the natural gas price to \$7.80/mcf from \$6.30/mcf, a 41% decrease in the liquids price to \$43.41/bbl from \$73.92/bbl and a decrease of 14% in the oil price to \$47.44/bbl from \$55.03/bbl.

**Commodity price risk management**

Year ended December 31,

(\$ thousands)	2008			2007		
	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)
Natural gas	1,869	1,094	2,963	5,248	-	5,248
Oil	(8,497)	17,148	8,651	619	(1,729)	(1,110)
Total gain (loss)	(6,628)	18,242	11,614	5,867	(1,729)	4,138

Three months ended December 31,

(\$ thousands)	2008			2007		
	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)	Realized Gain (Loss)	Unrealized Gain (Loss)	Total Gain (Loss)
Natural gas	1,908	(784)	1,124	1,132	(1,181)	(49)
Oil	1,119	26,601	27,720	224	(3,122)	(2,898)
Total gain (loss)	3,027	25,817	28,844	1,356	(4,303)	(2,947)

As part of our financial management strategy, NuVista has adopted a disciplined commodity price risk management program. The purpose of this program is to reduce volatility in our financial results, protect acquisition economics and stabilize cash flow against the unpredictable commodity price environment. NuVista's Board of Directors has approved a price risk management limit of up to 60% of forecast production, net of royalties, using fixed price, put option and costless collar contracts. To achieve NuVista's price risk management objectives, we enter into both commodity derivative and physical sale contracts. NuVista's Board of Directors approved an increase to the limit of 60% for the period April 2008 to October 2008. For this period the Board approved natural gas hedges in the amount of 70,000 gj/day. For the year ended December 31, 2008, the commodity derivative price risk management program resulted in a gain of \$11.6 million consisting of realized loss of \$6.6 million and unrealized gain of \$18.2 million. The gain of \$11.6 million for 2008 consisted of a \$3.0 million gain on natural gas hedges and an \$8.7 million gain on crude oil hedges. In the fourth quarter of 2008, our commodity derivative price risk management program resulted in a gain of \$28.8 million, consisting of realized gains of \$3.0 million and unrealized gain of \$25.8 million.



As at December 31, 2008, the mark to market value of our financial commodity derivative contract was a gain of \$16.5 million and the mark to market value of our physical sales contract was a gain of \$14.1 million.

The following is a summary of commodity price risk management contracts in place as at December 31, 2008:

(a) Financial contracts

Crude oil:

Volume	Average Price (Cdn\$/bbl)	Term
1,000 bbls/d	CDN. \$64.00 – Bow River	January 1, 2009 – December 31, 2009
1,000 bbls/d	CDN. \$95.01 – \$110.01 – WTI <sup>(1)</sup>	January 1, 2009 – December 31, 2009

(1) This is a US\$ denominated contract with fixed price of 1.0262 US.

Natural gas:

Volume	Average Price (Cdn\$/gj)	Term
5,000 gj/d	CDN. \$8.50 – \$11.00 – AECO	November 1, 2008 – March 31, 2009

(b) Physical sale contracts

Natural gas:

Volume	Average Price (Cdn\$/gj)	Term
30,000 gj/d	CDN. \$8.96 – \$10.72 – AECO	November 1, 2008 – March 31, 2009
20,000 gj/d	CDN. \$7.45 – Fixed Price AECO	April 1, 2009 – October 31, 2009

Subsequent to December 31, 2008, the following commodity price risk management contracts have been entered into:

(a) Financial instruments

Volume	Average Price (Cdn\$/bbl)	Term
1,000 bbls/d	USD. \$47.10 – WTI	March 1, 2009 – March 31, 2009
1,000 bbls/d	CDN. \$48.91 – Bow River	April 1, 2009 – June 30, 2009

(b) Physical sale contracts

Volume	Average Price (Cdn\$/gj)	Term
5,000 gj/d	CDN. \$5.65 – AECO Floor <sup>(1)</sup>	April 1, 2009 – October 31, 2009
20,000 gj/d	CDN. \$5.97 – \$6.56 AECO <sup>(2)</sup>	November 1, 2009 – October 31, 2010

(1) The AECO put was purchased at a cost of \$0.82/gj for a total cost of \$0.9 million.

(2) The cost associated with the above market collar was \$0.30/gj for a total cost of \$2.2 million.

**Royalties**

	Three months ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
Royalty rates (%)				
Natural gas and liquids	20	21	25	25
Oil	19	14	17	13
Weighted average rate	20	20	23	23

Royalties of \$116.9 million for the year ended December 31, 2008, were 140% higher than the \$48.7 million for the same period of 2007. The increase in royalties for the year ended December 31, 2008 resulted from revenues that were 143% higher compared to the same period of 2007. Royalty rates by product for the year ended December 31, 2008, were 25% for natural gas and liquids and 17% for oil compared to 25% for natural gas and liquids and 13% for oil for the same period in 2007. Royalties for the three months ended December 31, 2008, were \$21.7 million, an increase of 102% over the \$10.7 million reported for the three months ended December 31, 2007. As a percentage of revenue, the average royalty rate for the fourth quarter of 2008 was 20% compared to 20% for the comparative period of 2007. Royalty rates by product for the fourth quarter of 2008 were 20% for natural gas and liquids and 19% for oil compared to 21% for natural gas and liquids and 14% for oil for the similar period in 2007. The average natural gas and liquids royalty rate for the fourth quarter of 2008 was lower than anticipated due primarily to the receipt of gas cost allowance credits.

**Netbacks** – The table below summarizes field netbacks by product for the year ended December 31, 2008:

	Natural gas and liquids		Oil		Total	
	119.1 mmcf/d		4,472 bbl/d		24,320 boe/d	
(\$ thousands, except per unit amounts)	\$	\$/mcf	\$	\$/bbl	\$	\$/boe
Production revenue	380,809	8.74	134,529	82.19	515,338	57.90
Realized gain (loss) on commodity derivatives	1,869	0.04	(8,497)	(5.19)	(6,628)	(0.74)
	382,678	8.78	126,032	77.00	508,710	57.16
Royalties	(94,853)	(2.18)	(22,021)	(13.45)	(116,874)	(13.13)
Transportation costs	(4,881)	(0.11)	(2,751)	(1.68)	(7,632)	(0.86)
Operating costs	(51,328)	(1.18)	(23,176)	(14.16)	(74,504)	(8.37)
Field netback	231,616	5.31	78,084	47.71	309,700	34.80

The tables below summarize funds from operations netbacks for the year ended December 31, 2008, compared to the year ended December 31, 2007, and the three months ended December 31, 2008, compared to the three months ended December 31, 2007.

	Years ended December 31,					
	2008		2007		% Change	
	\$	\$/boe	\$	\$/boe	\$	\$/boe
(\$ thousands, except per unit amounts)						
Production revenue	515,338	57.90	212,386	42.01	143	38
Realized gain (loss) on commodity derivatives	(6,628)	(0.74)	5,867	1.16	(213)	(164)
	508,710	57.16	218,253	43.17	133	32
Royalties	(116,874)	(13.13)	(48,724)	(9.64)	140	36
Transportation	(7,632)	(0.86)	(4,422)	(0.87)	73	(1)
Operating costs	(74,504)	(8.37)	(36,550)	(7.23)	104	16
Field netbacks	309,700	34.80	128,557	25.43	141	37
General and administrative	(12,042)	(1.35)	(5,254)	(1.04)	129	30
Restricted share units	(1,120)	(0.13)	-	-	-	-
Interest	(15,509)	(1.74)	(9,510)	(1.88)	63	(7)
Funds from operations netback	281,029	31.58	113,793	22.51	147	40

	Three months ended December 31,					
	2008		2007		% Change	
	\$	\$/boe	\$	\$/boe	\$	\$/boe
(\$ thousands, except per unit amounts)						
Production revenue	106,982	45.27	53,790	41.03	99	10
Realized gain (loss) on commodity derivatives	3,027	1.28	1,356	1.03	123	24
	110,009	46.55	55,146	42.06	99	11
Royalties	(21,669)	(9.17)	(10,725)	(8.18)	102	12
Transportation	(1,797)	(0.76)	(1,222)	(0.93)	47	(18)
Operating costs	(21,235)	(8.98)	(9,316)	(7.11)	128	26
Field netback	65,308	27.64	33,883	25.84	93	7
General and administrative	(3,053)	(1.29)	(1,619)	(1.23)	89	5
Restricted share units	109	0.05	-	-	-	-
Interest	(3,486)	(1.47)	(2,394)	(1.83)	46	20
Funds from operations netback	58,878	24.93	29,870	22.78	97	9

**Transportation** – For the year ended December 31, 2008, transportation costs were \$7.6 million (\$0.86/boe) compared to \$4.4 million (\$0.87/boe) for the same period in 2007. The increase in transportation costs in 2008 compared to 2007 is primarily due to the 76% increase in production volumes. Transportation costs were \$1.8 million (\$0.76/boe) for the three months ended December 31, 2008 as compared to \$1.2 million (\$0.93/boe) for the fourth quarter of 2007.

**Operating** – Operating expenses were \$74.5 million for the year ended December 31, 2008, compared to \$36.6 million for the same period in 2007, an increase of 104%. This increase resulted from significantly higher production volumes and a 16% increase in per unit costs in 2008 compared to 2007. On a boe basis, operating costs increased 16% to \$8.37/boe for the year ended December 31, 2008, as compared to \$7.23/boe for the same period of 2007. The increase in 2008 per unit costs resulted primarily from increasing cost pressures facing NuVista and the entire industry. For the year ended, December 31, 2008, natural gas and liquids operating expenses averaged \$1.18/mcf and oil operating expenses were \$14.16/bbl compared to \$1.06/mcf and \$11.37/bbl respectively for the same period of 2007. For the three months ended December 2008, operating expenses were \$21.2 million (\$8.98/boe), a 128% increase when compared to \$9.3 million (\$7.11/boe) for

the three months ended December 31, 2007. This increase also resulted from significantly higher production volumes and 26% increase in per unit costs in the fourth quarter of 2008 compared to the fourth quarter of 2007. For the three months ended, December 31, 2008, natural gas and liquids operating expenses averaged \$1.21/mcfe and oil operating expenses were \$16.95/bbl compared to \$1.06/mcfe and \$10.12/bbl respectively for the same period of 2007. The higher per unit oil operating costs for both the three months and year ended December were higher compared to the same periods of 2007 is due primarily to higher operating costs associated with optimizing and stabilizing new heavy oil production. We expect these costs to come down in 2009.

**General and administrative** – General and administrative expenses, net of overhead recoveries, for the year ended December 31, 2008, were \$12.0 million (\$1.35/boe), an increase of 30%, on a per boe basis, over the \$5.3 million (\$1.04/boe) for the year ended December 31, 2007. This increase is directly attributable to the higher production base in NuVista, increased staffing levels associated with less reliance on Bonavista Petroleum Ltd. (“Bonavista”) for the provision of services, the integration of Rider’s operations and the associated move to a new location and higher costs being experienced throughout the energy industry. For the year ended December 31, 2008, NuVista paid Bonavista \$1.1 million (2007 - \$1.4 million) in fees relating to general and administrative services provided by Bonavista. In 2008, NuVista charged Bonavista management fees for jointly owned partnerships totaling \$1.4 million (2007 – \$1.4 million). General and administrative expenses were \$3.1 million (\$1.29/boe) net of overhead recoveries for the three months ended December 31, 2008, as compared to the charge of \$1.6 million (\$1.23/boe) for the same period in 2007. Higher per boe general and administration expenses in the fourth quarter of 2008 were primarily due to bonus accruals.

(\$ thousands, except per unit amounts)	Three months ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
Gross general and administrative expenses	4,767	3,022	18,946	10,643
Overhead recoveries	(1,714)	(1,403)	(6,904)	(5,389)
Net general and administrative expenses	3,053	1,619	12,042	5,254
Per boe	1.29	1.23	1.35	1.04

**Bad debt provision** – On July 22, 2008, SemGroup LP filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code and two of SemGroup LP’s Canadian subsidiaries, SemCAMS ULC and SemCanada Crude Company, filed for creditor protection under the Companies’ Creditors Arrangement Act in Canada. NuVista sold natural gas to SemCAMS ULC and crude oil to SemCanada Crude Company. NuVista has a financial exposure to these two entities for the period ending July 21, 2008, totaling approximately \$4.5 million. NuVista agreed with these two entities to terminate sales contracts effective July 22, 2008, and therefore NuVista has no ongoing financial exposure with these entities. At this time we are unable to ascertain with certainty the amount that will be recoverable but have recorded a provision in the financial statements equal to 100% of the amount owed. We will continue to reassess the recoverability of the outstanding balance as more information becomes available.

**Stock-based compensation**

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
Stock-based compensation	1,321	608	4,471	2,833
Restricted share units	(109)	-	1,120	-
Total	1,212	608	5,591	2,833

NuVista recorded a stock-based compensation charge of \$5.6 million for the year ended December 31, 2008, compared to \$2.8 million for the same period in 2007. The stock-based compensation charge relates to the amortization of the value of stock option awards and the accrual for future payments under the Restricted Share Unit (“RSU”) incentive plan. The increase in the expense in 2008 relates primarily to an increase in the number of stock options outstanding and the implementation of the RSU incentive plan in January 2008. Each RSU entitles participants to receive cash equal to the market value of the equivalent number of shares of NuVista. The RSU’s become payable as they vest, typically over three years. In the fourth quarter of 2008, the RSU expense was a credit due to a reduction in the accrual for future payments associated with the decline in NuVista’s share price.

**Interest** – Interest expense for the year ended December 31, 2008 was \$15.5 million (\$1.74/boe) versus \$9.5 million (\$1.88/boe) for the same period of 2007 due primarily to higher average debt levels and higher average interest rates. Cash paid for interest for the year ended December 31, 2008, was \$14.6 million compared to \$8.7 million for 2007. For the three months ended December 31, 2008, interest expense was \$3.5 million (\$1.47/boe), up 46% from \$2.4 million (\$1.83/boe) in the same period of 2007. At March 2, 2009, NuVista’s borrowing rate was approximately 1.8%. With the extension to NuVista credit facility on March 3, 2009, and the increase to current market borrowing costs, NuVista’s average borrowing rate increased to approximately 3.7%.

**Depreciation, depletion and accretion** – Depreciation, depletion and accretion expenses for the year ended December 31, 2008, were \$164.2 million, an increase of 93% over the \$85.2 million for the year ended December 31, 2007. The average cost per unit was \$18.45/boe for the twelve months ended December 31, 2008, compared to \$16.86/boe in the same period in 2007. Per unit costs have increased in 2008 compared to 2007 due to higher acquisition costs, in addition to higher industry exploitation and development costs. Depreciation, depletion and accretion expenses were \$43.7 million for the fourth quarter of 2008 compared to \$21.1 million for the same period in 2007, an increase of 107%. The average cost per unit was \$18.48/boe in the fourth quarter of 2008 compared to \$16.08/boe for the same period in 2007.

**Income taxes** – For the year ended December 31, 2008, income taxes were \$37.6 million as compared to a recovery of \$2.3 million in 2007. The income tax recovery for 2007 includes a recovery of \$11.4 million due to federal and provincial tax rate reductions. For the fourth quarter of 2008, the provision for income tax was \$11.6 million, as compared to a recovery of \$7.2 million with an effective tax rate of 33% for the fourth quarter of 2008. The recovery in the fourth quarter of 2007 is primarily due to lower earnings before income tax and the recovery related to reduced federal and provincial tax rates.

**Capital expenditures** – Capital expenditures were \$200.7 million for the year ended December 31, 2008, consisting of exploration and development spending of \$171.5 million and \$29.3 million of acquisitions. This compares to \$164.0 million incurred for the twelve months ended December 31, 2007, with \$113.3 million on exploration and development spending and \$50.7 million spent on acquisitions. 2008 acquisitions included two minor property acquisitions for \$29.3 million and the residual amount was comprised of minor property acquisitions during 2008. Capital expenditures were \$49.2 million during the fourth quarter of 2008 compared to \$43.8 million in the same period of 2007, with \$45.3 million of exploration and development spending and \$3.9 million spent on a smaller complementary property acquisition. In March 2008, NuVista acquired Rider in a business combination through a Plan of Arrangement for \$594.9 million. Each Rider share was exchanged for 0.3540 of a NuVista share.

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
Exploration and development				
Land and retention costs	9,507	2,311	37,015	6,145
Seismic	2,857	3,310	11,709	11,961
Drilling and completion	27,606	16,577	88,764	60,305
Facilities and equipment	5,449	10,435	32,117	33,866
Corporate and other	(111)	183	1,876	1,043
Subtotal	45,308	32,816	171,481	113,320
Acquisitions				
Property	3,858	10,994	29,256 <sup>(1)</sup>	50,688
Subtotal	3,858	10,994	29,256	50,688
Total capital expenditures	49,166	43,810	200,737	164,008
Corporate acquisition – non-cash	-	-	594,944	-

(1) Includes a \$2.6 million deposit paid in the fourth quarter of 2007.

**Funds from operations and net earnings** – For the year ended December 31, 2008, NuVista's funds from operations were \$281.0 million (\$3.77/share, basic), a 147% increase from \$113.8 million (\$2.21/share, basic) for the year ended December 31, 2007. In the fourth quarter of 2008, funds from operations were \$58.9 million (\$0.74/share, basic), a 97% increase over the \$29.9 million (\$0.57/share, basic) for the same period in 2007. Funds from operations for the three months and year ended 2008 were higher than the same periods in 2007, primarily due to higher production volumes and commodity prices, partially offset by increased operating and general and administrative costs.

For the year ended December 31, 2008, net earnings increased 236% to \$88.2 million (\$1.18/share, basic) from \$26.3 million (\$0.51/share, basic) for the same period in 2007. 2008 net earnings were higher when compared against 2007 net earnings due to the same factors impacting funds from operations as well as the impact of a larger unrealized gain on commodity derivatives, higher depletion, depreciation and accretion costs and a higher income tax provision. Net earnings increased during the fourth quarter of 2008 to \$24.4 million (\$0.31/share, basic) from the \$11.1 million (\$0.21/share, basic) for the same period in 2007. Fourth quarter 2008 net earnings were larger compared to the same period in 2007, for the same factors impacting the increase in annual net earnings.

**Tax pools** – At December 31, 2008, NuVista had approximately \$925 million (2007 – \$355.0 million) of estimated tax pools available for deduction against future years’ taxable income. The following table summarizes the estimated tax pool balances:

(\$ thousands)	Available Balance		Maximum Annual Deduction
	2008	2007	%
Canadian exploration expense	20,000	11,000	100
Canadian development expense	205,000	60,000	30
Canadian oil and natural gas property expense	430,000	191,000	10
Undepreciated capital cost	265,000	89,000	25
Other	5,000	4,000	-
<b>Total tax pools</b>	<b>925,000</b>	<b>355,000</b>	

**Liquidity and capital resources** – As at December 31, 2008, debt net of adjusted working capital, was \$341.3 million, resulting in a net debt to annualized fourth quarter funds from operations ratio of 1.5:1. At December 31, 2008, NuVista had an adjusted working capital surplus of \$14.1 million. Adjusted working capital excludes the current portion of the fair value of the commodity derivatives asset of \$16.5 million and the related current portion of future income tax liability of \$4.9 million. We believe it is appropriate to exclude these amounts when assessing financial leverage. At December 31, 2008, NuVista had \$94.6 million of unused bank borrowing capacity based on the current credit facility of \$450 million.

On March 4, 2008, NuVista completed the Rider Acquisition and the private placement of units for proceeds of \$84.0 million. Concurrently, NuVista increased the maximum borrowing amount of the credit facility to \$450.0 million. On March 5, 2008, NuVista repaid the US \$99.5 million second lien term loan that Rider had outstanding with bank borrowings. NuVista also terminated the \$16.7 million cross-currency interest swap related to this second lien term loan.

NuVista’s has a credit facility from a syndicate of primarily Canadian banks with a maximum borrowing amount of \$450 million. The credit facility is 364 day revolving facility subject to a request for an extension of the revolving period for a further 364 days and an annual review by the lenders, at which time a lender can provide an extension of the revolving period or request conversion to a one year term loan. Under the term period, no principal payments would be required until March 4, 2010.

As a result of closing the Rider Acquisition on March 4, 2008 and the concurrent amendment of NuVista’s credit facility, the 364 day revolving period of NuVista’s credit facility ended on March 3, 2009. NuVista and the bank syndicate agreed to an extension of the revolving period from March 3, 2009 until April 30, 2009 in order to return NuVista to its historical annual review date. As part of this extension, the credit facility borrowing rates were amended to current market rates and all other terms of the credit facility remained unchanged. NuVista’s bank syndicate is in the process of completing their annual review of NuVista’s year end reserves and financial information.

NuVista anticipates that funds from operations will provide the flexibility to fund its planned 2009 capital program. In this period of lower commodity prices and challenging economic environment, NuVista will place increased emphasis on maintaining its financial flexibility. NuVista plans to closely monitor its 2009 business plan and adjust capital programs in the context of commodity prices and access to bank and equity capital. NuVista’s capital program will be monitored and adjusted based on the outlook for commodity prices. At this time NuVista is targeting first half and annual capital expenditures to approximate funds from operations. With the closing of the property acquisition on January 29, 2009, NuVista’s current borrowings under its credit facility are approximately \$390 million. It is NuVista’s intent to have a reduced drilling program for the remainder of the first half of 2009, which in turn will reduce net debt to the targeted level of approximately \$350 million.

As at December 31, 2008, there were 79.2 million common shares and 3.0 million common share purchase warrants outstanding which expired on March 4, 2009. In addition, there were 6.1 million stock options outstanding, with an average exercise price of \$13.69 per share.

**Goodwill** – Goodwill of \$83.7 million arose from various business acquisitions and was determined based on the excess of total consideration paid less the fair value of the assets and liabilities acquired. Accounting standards require that the goodwill balance be assessed for impairment at least annually or more frequently if events, or changes in circumstances, indicate that the balance might be impaired. If such impairment exists, it would be charged to income in the period in which the impairment occurs. NuVista has determined that there was no goodwill impairment as of December 31, 2008.

**Subsequent event** – In December 2008, NuVista entered into an agreement to acquire certain natural gas properties in the Ferrier/Sunchild, Wapiti and Northwest Saskatchewan core areas. Total proved plus probable reserves, based on management’s internal estimates, were 4.5 million boes. The acquisition closed on January 29, 2009 and the purchase price was approximately \$55 million after closing adjustments. The acquisition was financed with bank borrowings and cash flow from operations.

**Related party activities** – In 2003, as part of the Plan of Arrangement with Bonavista Petroleum Ltd. (“Bonavista”), NuVista entered into a Technical Services Agreement (“TSA”) with Bonavista. Under the TSA, Bonavista received payment for certain services provided by it to NuVista. Effective January 1, 2007, the terms of the TSA were amended to reflect the reduced level of services provided by Bonavista. On August 31, 2007, the TSA was terminated and replaced with a new services agreement that reflected the remaining ongoing services that will be provided by Bonavista. On November 1, 2008, this services agreement was terminated and Bonavista no longer provides any ongoing services to NuVista.

NuVista and Bonavista are considered related as two directors of NuVista, one of whom is NuVista’s chairman, are also directors and officers of Bonavista and a director and an officer of NuVista are also officers of Bonavista. For the year ended December 31, 2008, NuVista paid Bonavista \$1.1 million (2007 - \$1.4 million) in fees relating to general and administrative services provided by Bonavista. In 2008, NuVista charged Bonavista management fees for jointly owned partnerships totalling \$1.4 million (2007 – \$1.4 million). In addition, during 2008 Bonavista charged NuVista \$0.2 million (2007 - \$1.0 million) for costs that are outside of the services agreement (and TSA) relating to NuVista’s share of direct charges from third parties. As at December 31, 2008, the amount receivable from Bonavista was \$1.2 million (2007 - \$0.7 million).

**Contractual obligations and commitments** – NuVista enters into contract obligations as part of conducting business. As NuVista continues to invest in its capital programs, we will draw on our bank facility and will have the related contractual obligation.

The following is a summary of NuVista’s contractual obligations and commitments as at December 31, 2008:

(\$ thousands)	Total	2009	2010	2011	2012	2013
Transportation	601	444	123	34	-	-
Office lease	7,877	2,055	2,055	2,055	1,712	-
Long-term debt	355,407	-	355,407	-	-	-
Total commitments	363,885	2,499	357,585	2,089	1,712	-

**Annual financial information** – The following table highlights selected annual financial information for the years ended December 31, 2008, 2007 and 2006:

December 31,	2008	2007	2006
(\$ thousands, except per share amounts)			
Production revenue	515,338	212,386	192,639
Net earnings	88,195	26,327	35,824
Per share – basic	1.18	0.51	0.72
Per share – diluted	1.18	0.51	0.71
Balance sheet information			
Total assets	1,407,296	683,165	590,084
Long-term debt	355,407	177,109	152,485
Shareholders’ equity	811,300	370,292	296,513

**Quarterly financial information** – The following table highlights NuVista’s performance for the eight quarterly reporting periods from March 31, 2007 to December 31, 2008:

	2008				2007			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Production (boe/d)	25,688	26,065	26,153	19,339	14,251	13,590	14,147	13,409
(\$ thousands, except per share amounts)								
Production revenue	106,982	149,648	161,794	97,064	53,790	48,166	56,832	53,626
Net earnings	24,443	53,699	2,905	7,150	11,063	754	9,678	4,832
Net earnings								
Per share – basic	0.31	0.68	0.04	0.12	0.21	0.01	0.19	0.10
Per share – diluted	0.31	0.68	0.04	0.12	0.21	0.01	0.18	0.10

NuVista has seen growth in quarterly production volumes over the prior eight quarters. The increases in production during the first and second quarters of 2008 relate primarily to the Rider Acquisition that closed on March 4, 2008. Production remained relatively constant over the last three quarters of 2008 as NuVista allocated cash flow to debt reduction rather than capital expenditures. The decline in production during the fourth quarter of 2008 related primarily to cold weather and the delay in the tie-in of several wells. Over the prior eight quarters, quarterly revenue has been in a range of \$48.1 million to \$161.8 million with revenue primarily influenced by production volumes, and natural gas and crude oil prices in the quarter. Net earnings have been in a range of \$0.1 million to \$53.7 million primarily influenced by production volumes, commodity prices and unrealized gains and losses on commodity derivatives.

**Critical accounting estimates** – The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 Natural 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 natural gas reserves on the financial results and position of the Company is described below.

- (b) **Depreciation, depletion and accretion 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 asset 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 obligation** – The asset retirement obligations are estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonments and reclamations discounted at a credit adjusted risk free rate. The 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 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.
- (f) **Goodwill** – Goodwill is recorded on a business combination when the total purchase consideration exceeds the fair value of the net identifiable assets and liabilities of the acquired entity. The goodwill balance is not amortized, however, and must be assessed for impairment at least annually. Impairment is initially determined based on the fair value of a reporting unit compared to its book value. Any impairment must be charged to earnings in the period the impairment occurs. The Company has one reporting unit, being the entity as a whole, and as at December 31, 2008, we have determined there was no goodwill impairment.

### ***Update on regulatory matters***

- (a) ***New Alberta Royalty Framework*** – On October 25, 2007, the Government of Alberta released a report entitled "The New Royalty Framework" (the "NRF") containing the Government's proposals for Alberta's new royalty regime, which was followed by the *Mines and Minerals (New Royalty Framework) Amendment Act, 2008*, which was given Royal Assent on December 2, 2008. The NRF and the applicable new legislation became effective on January 1, 2009. The NRF establishes new royalty rates for conventional oil, natural gas and oil sands. The new royalty rates for conventional oil are set by a single sliding rate formula which is applied monthly and increases the old royalty from 30% to 35% applied to the old and new tiers, to up to 50% and with rate caps once the price of conventional oil reaches \$120 per barrel. The sliding rate formula includes in its calculation the price of oil and well production.

In response to the drop in commodity prices experienced during the second half of 2008, the Government of Alberta announced on November 19, 2008, the introduction of a five year program of transitional royalty rates with the intent of promoting new drilling. Under this new program companies drilling new natural gas or conventional oil deep wells (between 1,000 and 3,500 metres) will be given a one-time option, on a well by well basis, to adopt either the new transitional royalty rates or those outlined in the NRF. In order to qualify for this program wells must be drilled during the period starting on November 19, 2008 and ending on December 31, 2013. Following this period all new wells drilled will automatically be subject to the NRF.

On April 10, 2008, the Government of Alberta introduced two new royalty programs that will encourage the development of deep oil and gas reserves, and these are: (a) a five-year oil program for exploration wells over 2,000 metres that will provide royalty adjustments to offset higher drilling costs and provide a greater incentive for producers to continue to pursue new, deeper oil plays (these oil wells will qualify for up to a \$1 million or 12 months of royalty offsets, whichever comes first); and (b) a five-year natural gas deep drilling program that will replace the existing program in order to encourage continued deep gas exploration for wells deeper than 2,500 metres (the program will create a sliding scale of royalty credit according to depth, of up to \$3,750 per metre). These new programs are to be implemented along with the NRF. NuVista does not anticipate a significant benefit from the TRP in 2009 as the majority of NuVista's wells converted to the NRF on January 1, 2009.

As a result of the current global financial crisis, Premier Ed Stelmach stated on February 5<sup>th</sup>, 2009, that the Government of Alberta was going to provide incentives to junior and mid-size companies with the objective of easing access to capital for such companies and promoting investment.

On March 3, 2009, the Government of Alberta announced a three-point incentive program to stimulate new and continued economic activity in Alberta which included a drilling royalty credit for new conventional oil and natural gas wells and a new well royalty incentive program. Under the drilling royalty credit program a \$200 per meter royalty credit will be available on new conventional oil and natural gas wells drilled between April 1, 2009 and March 31, 2010, subject to certain maximum amounts. The maximum credits available will be determined by the company's production level in 2008 and its drilling activity between April 1, 2009 and March 31, 2010. Based on NuVista's 2008 production it will be entitled to a maximum credit of 40% of royalties payable in the period April 1, 2009, and March 31, 2010. The new well incentive program will apply to wells beginning production of conventional oil and natural gas between April 1, 2009 and March 31, 2010 and provides for a maximum 5% royalty rate for the first 12 months of production, up to a maximum of 50,000 barrels or 500 mmcf of natural gas.

As royalties under the NRF are sensitive to both commodity prices and production levels, the estimated NRF Alberta and corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, and performance and location of new wells drilled.

- (b) ***Internal controls over financial reporting*** – On August 15, 2008, the Canadian Securities Administrators published the National Instrument ("NI") 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The changes include the requirement to provide certification of the effectiveness of internal controls over financial reporting for years ending after December 15, 2008.

### ***Update on accounting policies and financial reporting matters***

- (a) ***Capital disclosures*** – Effective January 1, 2008, NuVista adopted the new CICA accounting standard Section 1535, Capital Disclosures. Section 1535 specifies the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements, and the consequences of non-compliance. Refer to note 12 of the consolidated financial statements.
- (b) ***Financial instruments*** – Effective January 1, 2008, NuVista adopted the new CICA accounting standard Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instrument Presentation. These Sections require NuVista to increase disclosure on the nature, extent and risk arising from the financial instruments and how it manages those risks. Refer to note 13 of the consolidated financial statements.



- (c) **Goodwill** – The CICA issued the new accounting standard Section 3064, Goodwill and Intangible Assets replacing Section 3062, Goodwill and Other Intangible Assets. This new Section will be effective on January 1, 2009. This Section applies to goodwill subsequent to initial recognition and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new standard is not expected to have a material impact on NuVista’s consolidated financial statements.
- (d) **International Financial Reporting Standards** – In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the effective date for the requirement to report under International Financial Reporting Standards (“IFRS”) with comparative periods 2010 converted as well. Canadian generally accepted accounting principles as we currently know them, will cease to exist for all publicly reporting entities. Currently, the application of IFRS to the oil and gas industry in Canada requires considerable clarification. The Canadian Securities Administrators are in the process of examining changes to securities rules as a result of this initiative.

In order to meet the requirement to transition to IFRS, NuVista has appointed internal staff to lead the conversion project along with sponsorship from an executive steering committee. NuVista has also involved the external auditors throughout the conversion project. NuVista has provided training to key employees, completed a preliminary analysis of the accounting differences and is monitoring the impact of the transition on its business practices, information systems and internal controls over financial reporting. Changes in accounting policies are likely and may materially impact NuVista’s consolidated financial statements. However, continued progress is necessary before NuVista is in a position to quantify the impact on the financial results.

- (e) **Business combination** – In December 2008, the CICA issued the new accounting standard Section 1582, Business Combination replacing Section 1581. This Section establishes principles and requirements for accounting for business combinations. Significant changes include determination of the purchase price based on the fair value of shares exchanged at the market price on the acquisition or closing date. The new guidance also requires that all acquisition related costs be expensed as incurred, and contingent liabilities are to be measured at fair value at acquisition date and re-measured to fair value at each reporting period through earnings until settled. In addition, negative goodwill is required to be recognized in earnings on the acquisition date. The new Section will be applied prospectively effective January 1, 2011.

### ***Internal control reporting***

NuVista’s President and Chief Executive Officer (“CEO”) and Vice President, Finance and Chief Financial Officer (“CFO”) are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in NI 52-109.

Disclosure controls and procedures have been designed to ensure that information to be disclosed by NuVista is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. NuVista’s CEO and CFO have evaluated the effectiveness of the disclosure controls and procedures as at December 31, 2008 and have concluded that they provide reasonable assurance that all material information relating to the Company is disclosed in a timely manner.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the NuVista’s financial reporting and compliance with generally accepted accounting principles. The CEO and CFO have evaluated NuVista’s internal controls over financial reporting as at December 31, 2008 based on the framework in “Internal Control Over Financial Reporting – Guidance for Smaller Public Companies” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and have concluded they are designed and operating effectively to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP. During the year ended December 31, 2008, there have been no changes to the Company’s internal controls over financial reporting that have materially, or are reasonably likely to, materially affect the internal controls over financial reporting.

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

### ***Assessment of business risks***

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

- Operational risk associated with the production of oil and natural gas;
- Reserves risk with respect to the quantity and quality of recoverable reserves;
- Commodity risk as crude oil and natural gas prices fluctuate due to market forces;
- Financial risk such as volatility of the Canadian/US dollar exchange rate, interest rates and debt service obligations;

- Risk associated with the current global financial crisis;
- Risk associated with the re-negotiation of NuVista's credit facility and the continued participation of NuVista's lenders;
- Market risk relating to the availability of transportation systems to move the product to market;
- Environmental and safety risk associated with well operations and production facilities;
- Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection relating to the oil and natural gas industry; and

NuVista seeks to mitigate these risks by:

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

## **OUTLOOK**

Although the current financial and commodity markets create considerable uncertainty on the near term, NuVista will be responsive to economic conditions and continue with its disciplined acquire and develop business model. Our 2009 capital program will be reviewed continually throughout the year in the context of commodity and financial markets. We look at 2009 as a year that will have as many opportunities as challenges.

NuVista forecasts 2009 funds from operations of \$185 million based on current pricing assumptions. These assumptions are \$5.00/mcf for AECO natural gas, US\$49.00 for WTI crude oil, a foreign exchange rate of 0.80 and include price risk management contracts currently in place but do not include any benefits associated with the Alberta Government's announcement of royalty incentives on March 3, 2009. Based on this forecast of funds from operations, our Board of Directors has approved a reduction in our 2009 capital budget to \$175 million. Approximately \$95 million of the capital program will be allocated to exploration and development activities with the flexibility to either accelerate or defer expenditures based upon market conditions. New royalty incentives announced on March 3, 2009 will improve rates of return for drilling in areas such as Eastern Alberta. We expect to drill 50 to 70 wells and this should result in production averaging between 26,000 boe/d and 26,500 boe/d. Our reduced 2009 capital program will result in a high-grading of opportunities in 2009 and a growing prospect inventory heading into 2010. We will continue to invest human resources and capital on our emerging resource plays in order to develop a thorough understanding of recovery concepts. We will advance these projects in 2009 by drilling new wells to assess recovery from each of these resource plays.

For the first half of 2009, our objective will be to limit capital spending to our funds from operations. Capital spending during the first quarter of 2009, including property acquisitions, are expected to total approximately \$90 million. Capital expenditures in the second quarter of 2009 will be significantly reduced in order to maintain our financial flexibility. Production in the first quarter of 2009 is forecast to be approximately 26,300 boe/d. This forecast incorporates the impact of cold weather on production in January, production from the property acquisition that closed on January 29, 2009, the delayed tie-in of production volumes in February, and the tie-in of our Dunvegan wells in March 2009. Based on field estimates, February production is forecast to average greater than 27,000 boe/d and first quarter exit production rates are also forecast to be greater than 27,000 boe/d.

A key component of NuVista's business strategy is maintaining financial flexibility, in particular, during downturns faced by the industry. We plan to maintain our financial discipline during this period of low commodity prices and economic uncertainty. NuVista ended 2008 with debt net of adjusted working capital of \$341 million and a ratio of debt net of adjusted working capital to annualized fourth quarter funds from operations of 1.5:1. In addition to the prudent management of debt, price risk management activities have always played an important role in the execution of our business plan and management of financial risk. Details of our price risk management activities are outlined in our MD&A and notes to the financial statements.

NuVista will continue to plan for the future. We will continue to focus on our core strategy of cost control and applying the expertise of our technical staff to our current operating regions, through both our exploration and development program and strategic acquisitions. The execution of these strategies is expected to allow us to continue to grow our production and reserves on a per share basis, consistently and profitably over the long term. With a strong team of over 125 dedicated and talented individuals, NuVista is fully staffed in all key areas. Our talented and energized people are focused on increasing shareholder value over the long term using a disciplined and sustainable approach to profitable per share growth within a constructive environment of integrity, respect and open idea generation.

Over the long term we believe that supply and demand fundamentals will result in significant upside for both oil and natural gas prices, however we must be prepared to endure an extended period of low prices before this recovery occurs. We believe our counter-cyclical strategy of acquiring premium assets at attractive prices over the next two to three years and optimizing production from these assets will richly reward our stakeholders over the long term. Throughout our five and one-half year history, NuVista has demonstrated a disciplined and flexible approach to spending and allocating capital with a focus on profitable per share growth while maintaining a strong balance sheet. NuVista will continue with this approach in 2009.

Sincerely,



Alex G. Verge  
President & CEO  
March 5, 2009



Robert F. Froese  
Vice-President, Finance & CFO

**NUVISTA ENERGY LTD.****Consolidated Balance Sheets**

(\$ thousands) <b>As at December 31,</b> (unaudited)	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 139	\$ -
Accounts receivable and prepaids (note 4)	64,712	30,463
Commodity derivative asset (note 13)	16,513	-
	<b>81,364</b>	30,463
Oil and natural gas properties and equipment (note 6)	1,242,216	598,263
Goodwill (note 7)	83,716	54,439
	<b>\$ 1,407,296</b>	<b>\$ 683,165</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 50,710	\$ 31,972
Commodity derivative liability (note 13)	-	1,704
Future incomes taxes (note 11)	4,954	-
	<b>55,664</b>	33,676
Long-term debt (note 9)	355,407	177,109
Compensation liability (note 10)	850	-
Asset retirement obligations (note 8)	46,296	26,574
Future income taxes (note 11)	137,779	75,514
Shareholders' equity		
Share capital, warrants and contributed surplus (note 10)	598,042	245,212
Accumulated other comprehensive income (note 10)	-	17
Retained earnings	213,258	125,063
	<b>811,300</b>	370,292
	<b>\$ 1,407,296</b>	<b>\$ 683,165</b>

See accompanying notes to consolidated financial statements.

**NUVISTA ENERGY LTD.**
**Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings**

(\$ thousands, except per share amounts)	Three months ended December 31,		Years ended December 31,	
(unaudited)	2008	2007	2008	2007
<b>Revenues</b>				
Production	\$ 106,982	\$ 53,790	\$ 515,338	\$ 212,386
Royalties	(21,669)	(10,725)	(116,874)	(48,724)
Realized gain (loss) on commodity derivatives	3,027	1,356	(6,628)	5,867
Unrealized gain (loss) on commodity derivatives	25,817	(4,303)	18,242	(1,729)
	<b>114,157</b>	40,118	<b>410,078</b>	167,800
<b>Expenses</b>				
Operating	21,235	9,316	74,504	36,550
Transportation	1,797	1,222	7,632	4,422
General and administrative	3,053	1,619	12,042	5,254
Bad debt provision (note 4)	3,631	-	4,758	-
Interest	3,486	2,394	15,509	9,510
Stock-based compensation (note 10)	1,212	608	5,591	2,833
Depreciation, depletion and accretion	43,685	21,089	164,211	85,246
	<b>78,099</b>	36,248	<b>284,247</b>	143,815
Earnings before income and other taxes	36,058	3,870	125,831	23,985
Future income tax expense (reduction) (note 11)	11,615	(7,193)	37,636	(2,342)
<b>Net earnings</b>	<b>24,443</b>	11,063	<b>88,195</b>	26,327
Other comprehensive income				
Amortization of fair value of financial instruments (note 10)	-	(36)	(17)	(888)
<b>Comprehensive income</b>	<b>\$ 24,443</b>	\$ 11,027	<b>\$ 88,178</b>	\$ 25,439
<b>Retained earnings, beginning of period</b>	<b>188,815</b>	114,000	<b>125,063</b>	98,736
<b>Retained earnings, end of period</b>	<b>\$ 213,258</b>	\$ 125,063	<b>\$ 213,258</b>	\$ 125,063
<b>Net earnings per share – basic</b>	<b>\$ 0.31</b>	\$ 0.21	<b>\$ 1.18</b>	\$ 0.51
<b>Net earnings per share – diluted</b>	<b>\$ 0.31</b>	\$ 0.21	<b>\$ 1.18</b>	\$ 0.51

See accompanying notes to the consolidated financial statements.

**NUVISTA ENERGY LTD.**
**Consolidated Statements of Cash Flows**

(\$ thousands)	Three months ended December 31,		Years ended December 31,	
(unaudited)	2008	2007	2008	2007
<b>Cash provided by (used in)</b>				
<b>Operating Activities</b>				
Net earnings	\$ 24,443	\$ 11,063	\$ 88,195	\$ 26,327
Items not requiring cash from operations				
Depreciation, depletion and accretion	43,685	21,089	164,211	85,246
Stock-based compensation	1,321	608	4,471	2,833
Bad debt provision	3,631	-	4,758	-
Unrealized gain (loss) on commodity derivatives	(25,817)	4,303	(18,242)	1,729
Future income taxes	11,615	(7,193)	37,636	(2,342)
Asset retirement expenditures	(670)	(787)	(2,516)	(1,589)
Increase in non-cash working capital	(13,285)	(2,654)	(46,390)	(9,020)
	<b>44,923</b>	26,429	<b>232,123</b>	103,184
<b>Financing Activities</b>				
Issue of share capital and warrants, net of share issuance costs	461	1,511	90,246	42,871
Increase in long-term debt	10,262	16,085	178,298	24,624
Repayment of long-term debt	-	-	(305,584)	-
	<b>10,723</b>	17,596	<b>(37,040)</b>	67,495
<b>Investing Activities</b>				
Oil and natural gas properties and equipment	(45,308)	(32,816)	(169,936)	(113,320)
Transaction costs on Rider acquisition	-	-	(4,146)	-
Property acquisition	(3,858)	(10,994)	(26,656)	(50,688)
Deposit in capital asset acquisition	-	(2,600)	-	(2,600)
Decrease (increase) in non-cash working capital	(11,716)	2,385	5,794	(4,071)
	<b>(60,882)</b>	(44,025)	<b>(194,944)</b>	(170,679)
Increase (decrease) in cash and cash equivalents	(5,236)	-	139	-
Cash and cash equivalents, beginning of period	5,375	-	-	-
<b>Cash and cash equivalents, end of period</b>	<b>\$ 139</b>	\$ -	<b>\$ 139</b>	\$ -

See accompanying notes to consolidated financial statements.

**NUVISTA ENERGY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2008 and 2007.

**1. Significant accounting policies**

NuVista Energy Ltd. ("NuVista" or the "Company") 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 with Canadian Generally Accepted Accounting Principles. 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, the provision for asset retirement obligations and stock-based compensation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future 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. All tabular amounts are in thousands of Canadian dollars, except per share amounts, unless otherwise stated.

(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 proved reserves, are depreciated and depleted using the unit-of-production method which is based on gross production and estimated proved 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. Costs associated with office furniture, fixtures, leasehold improvements and information technology are carried at cost and depreciated on a 20% declining balance.

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 proved 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 proved plus 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 interest operations

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 represents the excess of purchase price over the fair value of net assets acquired in a business combination. Goodwill is tested for impairment on an annual basis at the year-end balance sheet date, or as events occur that could result in impairment. Impairment is recognized based on the fair value of the reporting unit compared to the value of the reporting unit. If the fair value is less than the value, impairment is measured by allocating the fair value of the identifiable assets and liabilities as if the reporting unit has been acquired in a business combination for a purchase price equal to its fair value. The excess of the fair value over the amounts assigned to the identifiable assets and liabilities is the fair value of goodwill. Any excess of the value over the implied fair value of goodwill is recognized as an impairment loss in the period which it occurs.

(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) Financial instruments - recognition and measurement

All financial instruments within its scope, including all derivatives are to be recognized on the consolidated balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. NuVista has classified its accounts receivable as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities which are measured at amortized cost. Financial derivatives are designated as held for trading which are measured at fair value. Changes to the measurement of existing financial assets and liabilities at the date of adoption were adjusted to either opening retained earnings or opening accumulated other comprehensive income. The Company immediately expenses all transaction costs incurred in relation to the acquisition of a financial asset or liability.

(ii) Derivatives

NuVista continues to utilize financial derivatives and non-financial derivatives, such as commodity sales contracts requiring physical delivery, to manage the price risk attributable to anticipated sale of oil and natural gas production.

NuVista has elected to account for its commodity sales contracts which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts rather than as non-financial derivatives.

Prior to January 1, 2007, NuVista applied hedge accounting to its financial derivatives. On January 1, 2007, NuVista discontinued hedge accounting for all existing commodity derivatives. Net derivative gains in accumulated other comprehensive income at January 1, 2007 were reclassified to earnings in future periods as the original hedged transactions affect net earnings. Commencing January 1, 2009, the changes in fair value of such derivatives are recognized in net earnings as incurred.

(iii) Embedded derivatives

Embedded derivatives are derivatives embedded in a host contract. NuVista has elected January 1, 2007, as its transition date for accounting for any potential embedded derivatives. NuVista did not identify any material embedded derivatives which required separate recognition and measurement.



(iv) Other comprehensive income

The new Comprehensive Income standard, Section 1530, requires a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which, for NuVista, to date relate to changes in gains or losses on derivatives designated as cash flow hedges.

(h) Stock-based compensation

NuVista has equity incentive plans, which are described in note 10, Shareholders' equity. 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. 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 asset and 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.

(k) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments that are highly liquid in nature and have an original maturity date of three months or less.

(l) Comparative figures

Certain prior period amounts have been reclassified to conform with current year's presentation.

## 2. Adoption of new accounting policies

(a) Capital disclosures

Effective January 1, 2008, the Company adopted the new CICA accounting standard Section 1535, Capital Disclosures. Section 1535 specifies the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements, and the consequences of non-compliance. Refer to note 12, Capital risk management.

(b) Financial instruments

Effective January 1, 2008, the Company adopted the new CICA accounting standard Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instrument Presentation. These Sections require the Company to increase disclosure on the nature, extent and risk arising from the financial instruments and how the entity manages those risks. Refer to note 13, Risk management activities.

(c) Restricted share units

The Company has established a cash-based Restricted Share Unit ("RSU") Incentive Plan for employees, and officers. Compensation expense associated with the RSU is determined based on market value at each reporting period which is recognized in earnings over the vesting period with a corresponding increase or decrease in compensation liability. Refer to note 10, Shareholders' equity.

### **3. Future accounting changes**

#### **(a) Goodwill**

The CICA issued the new accounting standard Section 3064, Goodwill and Intangible Assets replacing Section 3062, Goodwill and Other Intangible Assets. This new Section will be effective on January 1, 2009. This Section applies to goodwill subsequent to initial recognition and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new standard is not expected to have a material impact on the Company's consolidated financial statements.

#### **(b) International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the effective date for the requirement to report under International Financial Reporting Standards ("IFRS") with comparative 2010 periods converted as well. Canadian generally accepted accounting principles as we currently know them, will cease to exist for all public reporting entities. Currently, the application of IFRS to the oil and gas industry in Canada requires considerable clarification. The Canadian Securities Administrators are in the process of examining changes to securities rules as a result of this initiative.

In order to meet the requirement to transition to IFRS, the Company has appointed internal staff to lead the conversion project along with sponsorship from an executive steering committee. NuVista has also involved the external auditors throughout the conversion project. The Company has provided training to key employees, completed a preliminary analysis of the accounting differences and is monitoring the impact of the transition on its business practices, information systems and internal controls over financial reporting. Changes in accounting policies are likely and may materially impact the Company's consolidated financial statements. However, continued progress is necessary before the Company is in a position to quantify the impact on the financial results.

#### **(c) Business combination**

In December 2008, the CICA issued the new accounting standard Section 1582, Business Combination replacing Section 1581. This Section establishes principles and requirements for accounting for business combinations. Significant changes include determination of the purchase price based on the fair value of shares exchanged at the market price on the acquisition or closing date. The new guidance also requires that all acquisition related costs be expensed as incurred, and contingent liabilities are to be measured at fair value at acquisition date and remeasured to fair value at each reporting period through earnings until settled. In addition, negative goodwill is required to be recognized in earnings on the acquisition date. The new Section will be applied prospectively effective January 1, 2011.

### **4. Accounts receivable provision**

On July 22, 2008, SemGroup LP filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code and two of SemGroup LP's Canadian subsidiaries, SemCAMS ULC and SemCanada Crude Company, filed for creditor protection under the Companies' Creditors Arrangement Act in Canada. NuVista sold natural gas to SemCAMS ULC and crude oil to SemCanada Crude Company and has a financial exposure to these two entities totaling approximately \$4.5 million. NuVista has agreed with these two entities to terminate sales contract effective July 22, 2008, and therefore NuVista has no ongoing financial exposure with these entities. At this time, the Company is unable to ascertain with certainty the amount that will be recovered but has recorded a provision in the financial statements equal to 100% of the amount owed. The recoverability of the outstanding balance will continue to be reassessed as more information becomes available. The Company's allowance for doubtful accounts totalled \$4.8 million as at December 31, 2008 (2007 - \$0.1 million).

### **5. Acquisitions**

#### **Business combination**

In March 2008, the Company completed the acquisition of all of the issued and outstanding common shares of Rider Resources Ltd. ("Rider") for net consideration of \$260.3 million. The purchase price was based on Rider shareholders receiving 0.3540 common shares of the Company for each Rider share owned. The Company issued approximately 19.8 million common shares in exchange for 56.0 million common shares of Rider. The acquisition was accounted for using the purchase method. Operating results for Rider have been consolidated with the results of the Company effective from March 4, 2008, the date of acquisition. The allocation of the net purchase price to assets acquired and liabilities assumed based on their fair values was as follows:

	Amount
Purchase Price	
19.8 million NuVista common shares issued	\$ 256,195
Transaction costs	4,146
	260,341
Allocation of purchase price	
Property, plant and equipment	594,944
Working capital (deficiency)	(18,261)
Bank loan	(288,901)
Financial instrument	(19,251)
Asset retirement obligations	(8,505)
Future income taxes	(28,962)
Goodwill	29,277
	\$ 260,341

## 6. Oil and natural gas properties and equipment

	2008			2007		
	Cost	Accumulated Depreciation and depletion	Net book value	Cost	Accumulated Depreciation and depletion	Net book value
Oil and gas properties	\$ 1,496,120	\$ 522,641	\$ 973,479	\$ 670,104	\$ 194,838	\$ 475,266
Facilities	301,828	33,091	268,737	140,446	17,449	122,997
	\$ 1,797,948	\$ 555,732	\$ 1,242,216	\$ 810,550	\$ 212,287	\$ 598,263

Unproved property costs of \$108.8 million were excluded from the depreciation and depletion calculation for the year ended December 31, 2008 (2007 - \$60.9 million). Future development costs of \$49.6 million (2007 - \$29.7 million) were included in the depreciation and depletion calculation. For 2008, NuVista capitalized \$3.7 million (2007 - \$2.7 million) in general and administrative expenses and \$1.8 million (2007 - \$1.2 million) in stock compensation expense related to exploration and development activities. Related future income tax liability was \$0.7 million (2007 - \$0.5 million).

NuVista has performed the ceiling test as of December 31, 2008, and no impairment was required. The test was calculated using the benchmark reference prices at January 1 for the years 2009 to 2014 and thereafter, adjusted for commodity differentials specific to NuVista, as determined by independent engineers.

### Benchmark Reference Price Forecasts:

	2009	2010	2011	2012	2013	2014	Thereafter <sup>(1)</sup>
WTI (US\$/bbl)	57.50	68.00	74.00	85.00	92.01	93.85	97.73
AECO (CDN\$/mmbtu)	7.58	7.94	8.34	8.70	8.95	9.14	9.34

(1) Escalated at 2% per year thereafter.

## 7. Goodwill

The Company tested goodwill for impairment at December 31, 2008. Based upon this review, the Company has determined that there is no goodwill impairment as of December 31, 2008.

## 8. Asset retirement obligations

Total asset retirement obligations are based on estimated costs to reclaim and abandon ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. At December 31, 2008, the estimated total undiscounted amount of cash flows required to settle the Company's asset retirement obligations is \$187.9 million (2007 - \$143.3 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% (2007 - 8%) and an inflation rate of 2% (2007 - 2%) were used to calculate the fair value of the asset retirement obligations. The change in assumptions is due to changes in per well cost estimates.

A reconciliation of the asset retirement obligations is provided below:

	2008	2007
Balance, beginning of year	\$ 26,574	\$ 22,683
Accretion expense	3,026	1,841
Liabilities incurred	7,203	2,429
Liabilities acquired (see note 5)	8,505	166
Change in assumptions	3,504	1,044
Liabilities settled	(2,516)	(1,589)
Balance, end of year	\$ 46,296	\$ 26,574

## 9. Long-term debt

On March 4, 2008, the Company amended its credit facility to increase the maximum borrowing amount to \$450.0 million (2007 - \$220.0 million). Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a stamping fee. The credit facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment. The credit facility has a 364 day revolving period and is subject to an annual review by the lenders, at which time a lender can request conversion to a one year term loan. Under the term period, no principal payments would be required until March 4, 2010. As such, this credit facility is classified as a long-term liability. As at December 31, 2008, the Company had drawn \$355.4 million (2007 - \$177.1 million) of the long-term debt. Cash paid for interest expense for the year ended December 31, 2008, was \$14.6 million (2007 - \$8.7 million).

As a result of closing the Rider Acquisition on March 4, 2008 and the concurrent amendment of the Company's credit facility, the 364 day revolving period of the Company's credit facility ends on March 3, 2009. The Company and the lenders agreed to an extension of the revolving period from March 3, 2009 until April 30, 2009 in order to return NuVista to its historical annual review date. As part of this extension, the credit facility borrowing rates were amended to current market rates. All other terms of the credit facility remain unchanged.

## 10. Shareholders' equity

### (a) Share capital, warrants and contributed surplus

	2008	2007
Share capital	\$ 587,460	\$ 240,245
Warrants	3,454	-
Contributed surplus	7,128	4,967
Total	\$ 598,042	\$ 245,212

### (b) Authorized

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

### (c) Common shares issued

	2008		2007	
	Number	Amount	Number	Amount
Balance, beginning of year	52,704	\$ 240,245	49,015	\$ 194,027
Issued for cash	6,000	80,546	2,750	39,875
Issued on Rider acquisition	19,844	256,195	-	-
Conversion of Class B Performance shares	-	-	231	3
Exercise of stock options	616	6,545	708	4,991
Stock-based compensation	-	4,144	-	2,788
Cost associated with shares issued, net of future tax benefit of \$84 (2007 - \$557)	-	(215)	-	(1,439)
Balance, end of year	79,164	\$ 587,460	52,704	\$ 240,245

On March 4, 2008, the Company issued 6.0 million units of NuVista ("Unit") at a price of \$14.00 per Unit for gross proceeds of \$84.0 million by way of a private placement. Each Unit consists of one common share and one-half of a warrant.

(d) Warrants

	2008	
	Number	Amount
Balance, beginning of year	-	\$ -
Issued	3,000	3,454
Balance, end of year	3,000	\$ 3,454

At December 31, 2008, there were 3.0 million common share purchase warrants outstanding. Each warrant entitled the holder thereof to acquire, subject to adjustment, one common share for \$15.50, prior to March 4, 2009. As of March 5, 2009, these warrants expired and were not exercised. The Company has estimated a fair value of \$3.5 million for the warrants using a Black – Scholes pricing model. The pricing model used the following parameters: a risk free interest rate of 3.76%; an expected life of one year; and a volatility of 30%. The fair value per warrant was calculated at \$1.15.

(e) Contributed surplus

	2008	2007
Balance, beginning of year	\$ 4,967	\$ 3,747
Stock-based compensation	6,305	4,008
Exercise of stock options	(4,144)	(2,788)
Balance, end of year	\$ 7,128	\$ 4,967

(f) Accumulated other comprehensive income

	2008	2007
Balance, beginning of year	\$ 17	\$ -
Transition adjustment for discontinuance of hedge accounting, net of tax	-	905
Reclassification to net earnings during the period, net of tax	(17)	(888)
Balance, end of year	\$ -	\$ 17

(g) Per share amounts

During the year ended December 31, 2008, there were 74,468,270 (2007 – 51,375,406) weighted average shares outstanding. On a diluted basis, there were 75,021,409 (2007 – 51,961,713) weighted average shares outstanding after giving effect for dilutive stock options. The number of anti-dilutive options totaled 5,890,266 at December 31, 2008 (2007 – 3,224,150).

(h) Stock options

The Company has established a stock option plan whereby officers, directors, employees and service providers may be granted options to purchase common shares. Prior to December 2008, 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. Amendments to the stock option plan were made effective December 2008. Pursuant to the amendments, options subsequently granted will vest at the rate of 33% per year and expire 2.5 years after the date of vesting. 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, 2008 and 2007 is as follows:

	2008		2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	4,046,400	\$ 13.46	3,653,711	\$ 11.94
Granted	3,263,260	13.64	1,373,100	14.38
Exercised	(615,675)	10.63	(707,961)	6.35
Forfeited	(508,715)	14.63	(269,950)	14.40
Expired	(73,325)	17.64	(2,500)	7.79
Balance, end of year	6,111,945	\$ 13.69	4,046,400	\$ 13.46

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2008:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding At Year-End	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding at Year-End	Weighted Average Exercise Price
\$6.30 to \$9.99	1,031,425	3.7	\$ 7.79	208,925	\$ 7.15
\$10.00 to \$14.99	2,710,650	2.6	13.72	918,175	13.67
\$15.00 to \$19.56	2,369,870	3.5	16.23	223,400	17.09
\$6.30 to \$19.56	6,111,945	3.2	\$ 13.69	1,350,500	\$ 13.23

(i) 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 ranged between 2% to 4% (2007 – 4.5%); volatility ranged between 29% to 41% (2007 – 33%); an average expected life of 4.5 years (2007 – 4.5 years); an estimated forfeiture rate of 10% (2007 – 10%); and dividends of nil (2007 – nil). The weighted average fair value of stock options granted during the year ended December 31, 2008, was \$4.67 per option (2007 - \$4.77 per option).

(j) Restricted share units

In January 2008, the Board of Directors approved a RSU Incentive Plan for employees and officers. Each RSU entitles participants to receive cash equal to the market value of the equivalent number of shares of the Company. The RSU's become payable as they vest over their lives, typically three years.

For the year ended December 31, 2008, the Company recorded compensation expense of \$1.1 million and capitalized \$0.3 million to property, plant and equipment with a corresponding offset recorded in compensation liability. The compensation expense was based on the trading price of the Company's shares on December 31, 2008.

The following table summarizes the change in RSU for the year ended December 31, 2008:

	2008
	Number
Balance, beginning of year	-
Granted	390,163
Forfeited	(38,620)
Balance, end of year	351,543

The following table summarizes the change in compensation liability relating to the RSU's:

	2008
	Amount
Balance, beginning of year	\$ -
Change during the year	1,461
Balance, end of year	\$ 1,461
Compensation liability – current (included in accounts payable and accrued liabilities)	\$ 611
Compensation liability – long-term	\$ 850

## 11. Income and other taxes

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

	2008	2007
Expected tax rate	30.8%	33.8%
Expected tax expense	\$ 38,693	\$ 8,124
Effect of change in tax rate	(7,691)	(11,425)
Stock-based compensation	1,375	959
Change in estimated pool balances	5,259	-
Future income tax expense	\$ 37,636	\$ (2,342)

The significant components of net future income tax liability are as follows:

	2008	2007
Future income tax liabilities		
Oil and natural gas properties	\$ 115,060	\$ 77,292
Facilities and well equipment	36,921	7,152
Commodity derivative contracts	4,954	-
Future income tax assets		
Asset retirement obligations	(12,537)	(7,441)
Share issue costs	(1,633)	(1,015)
Other	(32)	(474)
Net future income tax liability	\$ 142,733	\$ 75,514
Future income tax liability – current	\$ 4,954	\$ -
Future income tax liability – long-term	\$ 137,779	\$ 75,514

For the year ended December 31, 2008, cash taxes paid was nil (2007 - nil).

## 12. Capital risk management

The Company's objectives when managing capital are: (i) to deploy capital to provide an appropriate return on investment to its shareholders; (ii) to maintain financial flexibility in order to preserve its ability to meet financial obligations; and (iii) to maintain a capital structure that provides financial flexibility to execute on strategic opportunities throughout the business cycle.

The Company's strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include share capital, long-term debt, and working capital. In order to maintain or adjust its capital structure, the Company may issue new shares, raise debt, refinance existing debt and adjust capital spending.

A key measure the Company utilizes in evaluating its capital structure is the ratio of net debt to annualized funds from operations. The ratio is calculated as net debt, defined as outstanding long-term debt plus or minus working capital adjusted for the current portion of commodity derivative asset or liability and current portion of future income tax asset or liability, divided by cash flow from operations before asset retirement expenditures and changes in non-cash working capital for the most recent calendar quarter. The Company's strategy is to maintain a net debt to annualized funds from operations ratio of less than 2.0:1. At December 31, 2008, the Company had a ratio of net debt to annualized funds from operations of 1.5:1 (2007 - 1.6:1).

The Company's share capital is not subject to external restrictions; however the credit facility borrowing commitment is based on the lender's semi-annual review of the Company's petroleum and natural gas reserves. The Company is subject to various covenants under its credit facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2008, the Company was in compliance with all covenants. There were no changes to the Company's approach to capital management during the year.

### 13. Risk management activities

#### (a) Financial instruments

The Company's financial instruments recognized in the consolidated balance sheet consist of cash and cash equivalents, accounts receivable, commodity derivative contracts, accounts payable and accrued liabilities, and bank loan. Unless otherwise noted, carrying values reflect the current fair value of the Company's financial instruments due to their short-term maturities. The estimated fair values of recognized financial instruments have been determined based on the Company's assessment of available market information and appropriate methodologies, through comparisons to similar instruments, or third party quotes.

(i) As at December 31, 2008, the Company has entered into the following crude oil contracts:

Volume	Average Price (Cdn\$/bbl)	Term
1,000 bbls/d	CDN. \$64.00 – Bow River	January 1, 2009 – December 31, 2009
1,000 bbls/d	CDN. \$95.01 – \$110.01 – WTI <sup>(1)</sup>	January 1, 2009 – December 31, 2009

(2) This is a US\$ denominated contract with fixed price of 1.0262 US.

As at December 31, 2008, the Company has entered into the following natural gas contracts:

Volume	Average Price (Cdn\$/gj)	Term
5,000 gj/d	CDN. \$8.50 – \$11.00 – AECO	November 1, 2008 – March 31, 2009

As at December 31, 2008, the mark to market value of the financial instruments was a gain of \$16.5 million and the mark to market value of our physical sale contracts was a gain of \$14.1 million.

#### (ii) Physical sale contracts

As at December 31, 2008, the Company has entered into direct sale natural gas contracts as follows:

Volume	Average Price (Cdn\$/gj)	Term
30,000 gj/d	CDN. \$8.96 – \$10.72 – AECO	November 1, 2008 – March 31, 2009
20,000 gj/d	CDN. \$7.45 – Fixed Price AECO	April 1, 2009 – October 31, 2009

#### (b) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to its accounts receivables. Most of the Company's accounts receivable arises from transactions with joint venture partners and oil and natural gas sales with petroleum and natural gas marketers. The Company mitigates its credit risk by entering into contracts with established counterparties that have strong credit ratings and reviewing its exposure to individual counterparties on a regular basis.

As at December 31, 2008, the accounts receivable balance was \$46.7 million of which \$9.9 million of accounts receivable were past due. The Company considers all amounts greater than 90 days past due. These past due accounts receivable are considered to be collectible, except as described in note 4. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. As at December 31, 2008, the Company had an allowance for doubtful accounts of \$4.8 million. Refer to note 4, Accounts receivable provision.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure risk to the Company. The Company did not have accounts receivable balances owing from counterparties that constituted more than 10% of the total revenue during the year ended December 31, 2008.

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity through continuously monitoring cash flows from operating activities, review of actual capital expenditure program, managing maturity profiles of financial assets and financial liabilities, maintaining a revolving credit facility with sufficient capacity, and managing its commodity price risk management program. These activities ensure that the Company has sufficient funds to meet its financial obligations when due.



The timing of cash flows relating to financial liabilities as at December 31, 2008, is as follows:

	2008	2009	2010	2011	2012	Thereafter
Accounts payable and accrued liabilities	\$ 50,710	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	-	-	355,407	-	-	-
Compensation liability	-	-	737	113	-	-
Total financial liabilities	\$ 50,710	\$ -	\$ 356,144	\$ 113	\$ -	\$ -

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity price risk, currency risk, and interest rate risk. The objective of market risk management is to manage the Company's exposure to these risks to within acceptable parameters, while optimizing returns.

(i) Commodity price risk

The Company is engaged in exploration, development and production activities in Canada and as a result has exposure to commodity price risk. Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices are impacted by global economic, political and environmental factors which affect the levels of supply and demand. The Company sells all of its crude oil, natural gas and natural gas liquids in Canada with sales prices denominated in Canadian dollars.

The Company has adopted a disciplined commodity price risk management program as part of its overall financial management strategy. The Board of Directors has a commodity price risk management limit of up to a maximum of 60% of forecast production volumes, net of royalties. For the period April 2008 to October 2008, the Board approved an increase to the limit for natural gas contracts up to 70,000 gj/day. The Company manages the risks associated with changes in commodity prices through the use of various financial derivative and physical delivery sales contracts. The price risk management contracts are considered economic hedges and the change in the fair value of these contracts is offset by an equal and opposite change in the fair value of the Company's future cash flows.

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company is exposed to currency risk as the underlying commodity prices in Canada for petroleum and natural gas are impacted by changes in exchange rate between the Canadian and United States dollars. The Company manages this exposure through its commodity price risk management. An increase of \$0.01 in the US/CDN exchange rate would result in an increase of \$26,000 in revenues. A decrease of \$0.01 in the US/CDN exchange rate would result in a decrease of \$26,000 in revenues.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank loan which bears a floating rate of interest. If interest rates had been 0.5% higher, the impact to net earnings for the year ended December 31, 2008, would have been \$1.7 million due to higher interest expense. Conversely, if interest rates had been 0.5% lower, an equal and opposite impact would have occurred to net earnings. The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2008.

#### 14. Relationship with Bonavista Petroleum Ltd.

In 2003, as part of the Plan of Arrangement with Bonavista Petroleum Ltd. ("Bonavista"), NuVista entered into a Technical Services Agreement ("TSA"). Under the TSA, Bonavista received payment for certain services provided by it to NuVista. Effective January 1, 2007, the terms of the TSA were amended to reflect the reduced level of services provided by Bonavista. On August 31, 2007, the TSA was terminated and replaced with a new services agreement that reflects the remaining ongoing services that will be provided by Bonavista. On November 1, 2008, this services agreement was terminated and Bonavista no longer provides any ongoing services to NuVista. NuVista and Bonavista are considered related as two directors of NuVista, one of whom is NuVista's chairman, are also directors and officers of Bonavista and a director and an officer of NuVista are also officers of Bonavista.

For the year ended December 31, 2008, NuVista paid Bonavista \$1.1 million (2007 - \$1.4 million) in fees relating to general and administrative services provided by Bonavista. In 2008, NuVista charged Bonavista management fees for jointly owned partnerships totaling \$1.4 million (2007 - \$1.4 million). In addition Bonavista charged NuVista \$0.2 million (2007 - \$1.0 million) for costs that are outside of the new services agreement relating to NuVista's share of direct charges from third parties. As at December 31, 2008, the amount receivable from Bonavista was \$1.2 million (2007 - \$0.7 million).

## 15. Commitments

The following is a summary of the Company's contractual obligations and commitments as at December 31, 2008:

	Total	2009	2010	2011	2012	2013
Transportation	\$ 601	\$ 444	\$ 123	\$ 34	\$ -	\$ -
Office lease	7,877	2,055	2,055	2,055	1,712	-
Long-term debt	355,407	-	355,407			
<b>Total commitments</b>	<b>\$ 363,885</b>	<b>\$ 2,499</b>	<b>\$ 357,585</b>	<b>\$ 2,089</b>	<b>\$ 1,712</b>	<b>\$ -</b>

## 16. Subsequent events

### (a) Property acquisition

In December 2008 the Company entered into an agreement to acquire certain natural gas properties in the Ferrier/Sunchild, Wapiti and Northwest Saskatchewan core areas. Total proved plus probable reserves, based on management's internal estimates, were 4.5 million boes. The purchase price was approximately \$55 million, subject to final purchase adjustments and the acquisition closed on January 29, 2009. The acquisition was financed with bank borrowings and cash flow from operations.

### (b) Financial instruments

Subsequent to December 31, 2008, the following commodity price risk management contracts have been entered into in the normal course of business:

#### (i) Financial contracts

Volume	Average Price (Cdn\$/bbl)	Term
1,000 bbls/d	USD. \$47.10 – WTI	March 1, 2009 – March 31, 2009
1,000 bbls/d	CDN. \$48.91 – Bow River	April 1, 2009 – June 30, 2009

#### (ii) Physical sale contracts

Volume	Average Price (Cdn\$/gj)	Term
5,000 gj/d	CDN. \$5.65 – AECO Floor <sup>(1)</sup>	April 1, 2009 – October 31, 2009
20,000 gj/d	CDN \$5.97 – \$6.56 AECO <sup>(2)</sup>	November 1, 2009 – October 31, 2010

(1) The AECO put was purchased at a cost of \$0.82/gj for a total cost of \$0.9 million.

(2) The cost associated with the market collar was \$0.30/gj for a total cost of \$2.2 million.

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## 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  
Craig W. Stewart, RMP Energy Ltd.  
Alex G. Verge, President and CEO  
Clayton H. Woitas, Range Royalty Management Ltd.  
Grant A. Zawalsky, Burnet, Duckworth & Palmer LLP

### *Officers*

Keith A. MacPhail, Chairman  
Alex G. Verge, President and CEO  
Robert F. Froese, Vice President, Finance and CFO  
Kevin J. Christie, Vice President, Exploration  
Steven J. Dalman, Vice President, Business Development  
D. Chris McDavid, Vice President, Operations  
Daniel B. McKinnon, Vice President, Engineering  
Joshua T. Truba, Vice President, Land  
Glenn A. Hamilton, Corporate Secretary

### *Auditors*

KPMG LLP  
Chartered Accountants  
Calgary, Alberta

### *Legal Counsel*

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

### *Bankers*

Canadian Imperial Bank of Commerce  
Bank of Montreal  
Royal Bank of Canada  
Toronto-Dominion Bank  
Bank of Nova Scotia  
Alberta Treasury Branches  
Union Bank of California, Canada Branch

### *Registrar and Transfer Agent*

Valiant Trust Company  
Calgary, Alberta

### *Engineering Consultants*

GLJ Petroleum Consultants Ltd.  
Calgary, Alberta

### *Stock Exchange Listing*

Toronto Stock Exchange  
Trading Symbol "NVA"

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For further information contact:

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President and CEO  
(403) 538-8501

Robert F. Froese,  
Vice President, Finance and CFO  
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