MANAGEMENT'S REPORT

The preparation of the accompanying financial statements is the responsibility of Management. The financial statements have been prepared by Management in accordance with International Financial Reporting Standards. Financial information contained throughout all other financial and operating data is consistent with these financial statements.

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

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

Under the supervision of our Chief Executive Officer and our Chief Financial Officer, Management has conducted an evaluation of the effectiveness of our internal control over financial reporting. Management has concluded that as of December 31, 2016, our internal controls over financial reporting were effective. Because of the inherent limitations, internal controls over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

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

KPMG LLP are independent auditors appointed by NuVista's shareholders. The auditors have audited the financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the financial statements.

(signed) "Jonathan A. Wright"
President and Chief Executive Officer
March 7, 2017

(signed) "Ross L. Andreachuk"
Vice President, Finance and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of NuVista Energy Ltd.

We have audited the accompanying financial statements of NuVista Energy Ltd., which comprise the statements of financial position as at December 31, 2016 and 2015, the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NuVista Energy Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "KPMG LLP"
Chartered Professional Accountants

March 7, 2017
Calgary, Canada

NUVISTA ENERGY LTD.

Statements of Financial Position

($Cdn thousands)				
As at December 31,		**2016**		2015
Assets				
Current assets				
Cash and cash equivalents	**$**	**5,341**	$	—
Accounts receivable and prepaid expenses		**32,274**		29,541
Financial derivative assets (note 17)		**—**		25,770
		37,615		55,311
Financial derivative assets (note 17)		**962**		—
Exploration and evaluation assets (note 6)		**73,667**		83,291
Property, plant and equipment (note 7)		**848,996**		843,035
Total assets	**$**	**961,240**	$	981,637
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**52,305**	$	48,643
Accrued environmental remediation liabilities (note 5)		**846**		4,790
Current portion of asset retirement obligations (note 11)		**8,800**		9,501
Financial derivative liabilities (note 17)		**8,732**		—
		70,683		62,934
Long-term debt (note 9)		**—**		196,733
Senior unsecured notes (note 10)		**67,156**		—
Other liabilities (note 15)		**709**		—
Financial derivative liabilities (note 17)		**—**		14
Asset retirement obligations (note 11)		**66,663**		92,317
		205,211		351,998
Shareholders' equity				
Share capital (note 13)		**1,265,988**		1,140,170
Contributed surplus		**46,801**		44,576
Deficit		**(556,760)**		(555,107)
		756,029		629,639
Total liabilities and shareholders' equity	**$**	**961,240**	$	981,637

Subsequent events (notes 17 & 20)
Commitments (note 20)

See accompanying notes to the financial statements.

Approved on behalf of the Board:

(signed) "Deborah S. Stein"
Director

(signed) "Pentti O. Karkkainen"
Director

NUVISTA ENERGY LTD.

Statements of Loss and Comprehensive Loss

($Cdn thousands, except per share amounts)

Year Ended December 31,		**2016**		2015
Revenues				
Oil and natural gas	**$**	**257,252**	$	225,685
Royalties		**(1,861)**		(6,763)
Net revenue from oil and natural gas sales		**255,391**		218,922
Realized gain on financial derivatives		**26,329**		42,801
Unrealized loss on financial derivatives		**(33,527)**		(21,455)
Net revenue from oil and natural gas sales and gains (losses) on financial derivatives		**248,193**		240,268
Expenses				
Transportation		**21,119**		12,644
Operating		**94,821**		97,156
General and administrative		**16,629**		20,052
Share-based compensation (note 15)		**5,084**		5,003
Depletion, depreciation, amortization and impairment (notes 6 and 7)		**100,972**		242,088
Exploration and evaluation (note 6)		**827**		2,942
Loss on property dispositions (note 8)		**539**		3,002
Environmental remediation expense (note 5)		**—**		9,300
Note receivable recovery		**(350)**		5,230
Financing costs (note 18)		**11,831**		8,884
		251,472		406,301
Loss before taxes		**(3,279)**		(166,033)
Deferred income tax expense (benefit) (note 12)		**(1,626)**		6,892
Loss and comprehensive loss	**$**	**(1,653)**	$	(172,925)
Net loss per share (note 14)				
Basic	**$**	**(0.01)**	$	(1.16)
Diluted	**$**	**(0.01)**	$	(1.16)

See accompanying notes to the financial statements.

NUVISTA ENERGY LTD.

Statements of Changes in Shareholders' Equity

($Cdn thousands) **Year Ended December 31,**		**2016**		2015
Share capital (note 13)				
Balance, January 1	**$**	**1,140,170**	$	1,029,017
Issued for cash on offering of common shares		**103,510**		90,000
Issued for cash on offering of flow-through common shares, net of implied premium of $1.6 million (2015 - $1.1 million)		**20,003**		20,861
Issued for cash on exercise of stock options		**4,640**		2,927
Contributed surplus transferred on exercise of stock options		**1,592**		1,005
Conversion of restricted share awards		**897**		80
Share issue costs, net of deferred tax benefit of $nil (2015 - $1.2 million)		**(4,824)**		(3,720)
Balance, end of period	**$**	**1,265,988**	$	1,140,170
Contributed surplus				
Balance, January 1	**$**	**44,576**	$	40,812
Share-based compensation		**4,714**		4,849
Transfer to share capital on exercise of stock options		**(1,592)**		(1,005)
Conversion of restricted share awards		**(897)**		(80)
Balance, end of period	**$**	**46,801**	$	44,576
Deficit				
Balance, January 1	**$**	**(555,107)**	$	(382,182)
Net earnings (loss)		**(1,653)**		(172,925)
Balance, end of period	**$**	**(556,760)**	$	(555,107)
Total shareholders' equity	**$**	**756,029**	$	629,639

See accompanying notes to the financial statements.

NUVISTA ENERGY LTD.

Statements of Cash Flows

($Cdn thousands)		
Year ended December 31,	**2016**	2015
Cash provided by (used in)		
Operating activities		
Net income (loss)	**$ (1,653)**	$ (172,925)
Items not requiring cash from operations:		
Depletion, depreciation, amortization and impairment	**100,972**	242,088
Exploration and evaluation	**827**	2,942
Loss on property dispositions	**539**	3,002
Share-based compensation (note 15)	**3,834**	4,620
Unrealized loss on financial derivatives	**33,527**	21,455
Deferred income tax expense (benefit)	**(1,626)**	6,892
Accretion (note 11)	**1,771**	2,385
Asset retirement expenditures (note 11)	**(10,791)**	(8,839)
Change in non-cash working capital	**(649)**	9,783
	126,751	111,403
Financing activities		
Issue of share capital, net of share issue costs	**124,954**	109,968
Increase (decrease) in long-term debt	**(196,733)**	24,764
Issuance of senior unsecured notes, net of financing costs	**66,893**	—
	(4,886)	134,732
Investing activities		
Property, plant and equipment expenditures	**(187,363)**	(257,358)
Exploration and evaluation expenditures	**(1,698)**	(15,884)
Property acquisitions	**(3,133)**	(6,323)
Proceeds on property dispositions (note 8)	**75,983**	26,858
Change in non-cash working capital	**(313)**	6,572
	(116,524)	(246,135)
Change in cash and cash equivalents	**5,341**	—
Cash and cash equivalents, balance January 1	**—**	—
Cash and cash equivalents, end of period	**$ 5,341**	$ —
Cash interest paid	**$ 9,464**	$ 6,855

See accompanying notes to the financial statements.

NUVISTA ENERGY LTD.
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2016 with comparative figures for 2015. All tabular amounts are in thousands of Canadian dollars, except share and per share amounts, unless otherwise stated.

1. Corporate information

NuVista Energy Ltd. ("NuVista" or the "Company") is a Canadian publicly traded company incorporated in the province of Alberta. The Company is an oil and natural gas company actively engaged in the exploration, development and production of oil and natural gas reserves in the Western Canadian Sedimentary Basin. NuVista's primary focus is on the scalable and repeatable condensate-rich Montney formation in the Alberta Deep Basin.

The address of the Company's head office is 3500, 700 – 2nd Street S.W., Calgary, Alberta, Canada, T2P 2W2.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These accounting policies have been applied consistently for all periods presented in these financial statements.

These financial statements were approved and authorized for issuance by the Board of Directors on March 7, 2017.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value with the changes in fair value recorded in net earnings.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

(d) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the financial statements:

(i) Cash generating units

Cash generating units ("CGUs") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or group of assets. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations.

(ii) Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant assumptions.

(iii) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments in determining whether it is likely that future economic benefits exist when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined.

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in the financial statements:

(iv) Reserve estimates

Oil and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals. Reserve estimates are based on engineering data, estimated future prices and costs, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Company expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels and changes in commodity prices.

(v) Asset retirement obligations

Asset retirement obligations are recognized for the future decommissioning and restoration of property, plant and equipment. These obligations are based on estimated costs, which take into account the anticipated method and extent of restoration and technological advances. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience and prices. The expected timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to assumptions related to future expected costs, discount rates and timing may have a material impact on the amounts presented.

(vi) Accrued environmental remediation liabilities

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

(vii) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. The deferred tax asset or liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

(viii) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measure at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

3. Significant accounting policies

(a) 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.

(b) Joint arrangements

A portion of exploration, development and production activities are conducted jointly with others and, accordingly, the Company only reflects its proportionate interest of the assets, liabilities, revenues, expenses and cash flows. The Company does not have any joint arrangements that are structured through a separate vehicle.

(c) Exploration and evaluation assets

Exploration and evaluation (“E&E”) expenditures are initially capitalized within “Exploration and evaluation assets”. E&E costs may include the costs of acquiring licenses, technical services and studies, seismic acquisition, exploration drilling and testing costs and directly attributable general and administrative costs. Costs incurred prior to having obtained the legal right to explore an area are charged to net earnings as exploration and evaluation expenditures in the period in which they are incurred.

E&E assets are not depreciated. These costs are accumulated and are carried forward until technical feasibility and commercial viability of the area is determined or the assets are determined to be impaired. Technical feasibility and commercial viability are met when the Company has determined that an E&E asset will be developed, as evidenced by the classification of proved or probable reserves and the appropriate internal and external approvals.

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is defined as the higher of fair value less costs to sell and value in use. E&E assets are tested for impairment at the operating segment level.

If proved and/or probable reserves have been discovered, E&E assets are first tested for impairment prior to the reclassification to property, plant and equipment. The carrying value, after any impairment loss, of the relevant E&E assets and associated undeveloped land is then reclassified as development and production assets within property, plant and equipment.

Any impairment loss on E&E assets, unsuccessful E&E costs and the cost of undeveloped land that has expired are charged to net earnings as exploration and evaluation expense.

(d) Development and production assets

Items of property, plant and equipment which include oil and gas development and production assets and corporate assets are measured at cost less accumulated depletion, depreciation, amortization and impairment. Development and production assets are accumulated on an area-by-area basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets as outlined above.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in net earnings as incurred. Such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in net earnings as incurred.

(e) Impairment

An impairment test is performed when events and circumstances arise, at each reporting date, that indicate that the carrying value of a development and production asset may exceed its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, defined as the greater of fair value less costs to sell and its value in use. Fair value less costs to sell is determined as the amount that would be obtained for the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined by using discounted future net cash flows of proved and probable reserves using forecast prices and costs including expansion prospects and its eventual disposal, using assumptions that an independent market participant may take into account. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset. If any indications of impairment exist, the Company performs an impairment test related to the assets. Individual assets or areas are grouped for impairment assessment purposes into CGU's, which are the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is recorded within depletion, depreciation, amortization and impairment expense in net earnings. Impairments are reversed when events or circumstances give rise to changes in the estimate of the recoverable amount since the period the impairment was recorded. An impairment loss is reversed only to the extent that the CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, if no impairment loss had been recognized.

(f) Depletion, depreciation, amortization

The costs of development and production assets are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated by taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Other property, plant and equipment are stated at cost less accumulated depletion, depreciation, amortization and any impairment in value. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) and depreciated over their useful lives. Costs associated with workovers are depreciated over two years and plant turnarounds and overhauls are depreciated over five years. Corporate assets are depreciated on a straight line basis over the useful life of the related assets. The assets' useful lives and residual values are assessed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

(g) Asset purchases and disposals

Transactions involving the purchase of an individual area, or a group of areas, that do not qualify as a business combination, are treated as asset purchases irrespective of whether the specific transactions involved the transfer of the areas directly or the transfer of an incorporated entity. Accordingly, no goodwill arises and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposition are compared to the carrying value of the specific exploration and evaluation assets, development and production assets and asset retirement obligations disposed and any surplus or shortfall is recorded as a gain or loss on disposal in net earnings.

(h) Asset exchange transactions

Asset exchange transactions for development and production assets are measured at the fair value of the asset acquired and the assets given up are measured at the carrying amount. Gains and losses are recorded in net earnings in the period incurred.

(i) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net earnings in the period measured. Non-current assets held for sale are presented in current assets within the statement of financial position. Assets held for sale are not depleted or depreciated. When the criteria for classification as assets held for sale are no longer met, amounts are reclassified from current assets to property, plant and equipment and the current liabilities are reclassified to asset retirement obligations.

(j) Business combinations

Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. Business combinations are accounted for using the acquisition method. The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition, with limited exceptions. Any excess of the purchase price over the recognized amount (generally the fair value) of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the recognized amount of the net assets acquired is recorded as a bargain purchase gain in net earnings. Associated transactions costs are expensed when incurred.

(k) Asset retirement obligations

The Company recognizes a liability in the period in which it has a present and legal or constructive liability and a reasonable estimate of the amount can be made. On a periodic basis, the Company reviews these estimates and changes, if any, are applied prospectively. An obligation is recognized for the estimated cost of abandonment and site restoration, by discounting expected future cash flows required to settle the obligation using a risk free rate, with a corresponding amount capitalized as asset retirement costs in property, plant and equipment. These asset retirement costs are subsequently depleted on a unit-of-production basis over the life of the proved and probable reserves. The obligation is adjusted each reporting period to reflect the passage of time and changes to the estimated future cash flows underlying the obligation. The increase in the obligation due to the passage of time is recognized as accretion expense and changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligations are charged against the liability.

(l) Revenue recognition

Revenue from the sale of crude oil, natural gas, condensate and natural gas liquids is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue is measured at the fair value of the consideration received or receivable.

(m) Transportation

Transportation expenses include costs incurred to transport crude oil, natural gas, condensate and natural gas liquids from the wellhead to the point of title transfer.

(n) Financial instruments

(i) Non-derivative financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through profit or loss”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “other financial liabilities” as defined by the accounting standard. Financial assets and financial liabilities at “fair value through profit or loss” are either classified as “held for trading” or “designated at fair value through profit or loss” and are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as “loans and receivables”, “held-to-maturity”, and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income.

Financial assets, excluding derivative instruments, are classified as “loans and receivables”. Financial liabilities, excluding derivative instruments, are classified as “other financial liabilities”. All derivative instruments are classified as “fair value through profit or loss”.

(ii) Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in net earnings when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in net earnings.

The Company has accounted for its forward physical delivery 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. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Realized gains or losses from natural gas and oil commodity physical delivery sales contracts are recognized in oil and natural gas revenue as the contracts are settled.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in net earnings.

(o) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(p) Share-based compensation

The Company has four types of incentive plans: stock options, restricted stock units (“RSU”), Director deferred share unit ("DSU") plan, and restricted share awards (“RSA”) that may be granted to directors, officers and employees.

The Company’s stock option plan provides the stock option holder with the right to purchase common shares. The Company uses the fair value method for valuing stock option grants using the Black-Scholes option pricing model. 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 to share-based compensation expense with a corresponding increase to contributed surplus. 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. A forfeiture rate is estimated on the grant date and is subsequently adjusted each period to reflect the actual number of options that are expected to vest.

The Company’s RSU plan entitles participants to receive cash based on the Company’s share price at the time of vesting. A liability for expected cash payments is accrued over the vesting period based on the market price of the Company’s common shares. Compensation expense is recorded in net earnings as share-based compensation expense.

The Company's DSU plan entitles participants to receive cash based on the Company's share price at the time of retirement. A liability for expected cash payments is accrued over the life of the DSUs based on the market price of the Company's common shares. Compensation expense is recorded in net earnings as share-based compensation expense.

The RSA incentive plan allows a holder of the RSA to receive common shares upon vesting. The Company uses the fair value method for valuing RSA grants using the Black-Scholes option pricing model. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. The amount of the compensation expense is reduced by an estimated forfeiture rate determined at the date of the grant. Upon vesting of the RSAs, the previously recognized value in contributed surplus will be recorded as an increase to share capital.

(q) Income taxes

Income tax expense represents the sum of the tax currently payable and the deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred income tax assets and liabilities are netted in certain circumstances.

Deferred income tax expense is recognized in the statement of earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(r) Flow-through shares

The Company finances a portion of its exploration and development activities through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes related to exploratory and development activities are renounced to investors in accordance with tax legislation. Flow-through shares issued are recorded in share capital at the fair value of common shares on the date of issue. The premium received on issuing flow-through shares is initially recorded as other liabilities termed 'deferred premium on flow-through shares'. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

(s) Earnings (loss) per share

Basic earnings per share is calculated by dividing the net earnings or losses attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. The Company calculates the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money stock options and RSAs are used to purchase common shares at average market prices.

4. New accounting policies

Future accounting changes

Below is a brief description of new IFRS standards and amendments that are not yet effective and have not been applied in the preparation of these financial statements.

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

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

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

5. Accrued environmental remediation liabilities

		2016		2015
Balance, January 1	**$**	**4,790**	$	—
Environmental remediation expense		**—**		9,300
Remediation costs incurred		**(3,944)**		(4,510)
Balance, end of period	**$**	**846**	$	4,790

During the third quarter of 2015, the Company identified a leak in a remote pipeline carrying oil emulsion in the non core area of Northwest Alberta. The pipeline was immediately shut down and the Company's emergency response plan was activated. The Company's insurers have been notified and are currently evaluating to determine if this is an insurable event. The Company recorded $9.3 million in environmental remediation expense in the December 31, 2015 year end financial statements, which is the current best estimate of the total cost of remediation. To date, $8.5 million has been spent. It is anticipated that the majority of the remaining remediation will occur in 2017.

6. Exploration and evaluation assets

		2016		2015
Balance, January 1	**$**	**83,291**	$	98,906
Additions		**1,698**		15,884
Acquisitions		**1,001**		6,323
Dispositions		**(1,360)**		(7,198)
Capitalized share-based compensation		**766**		6
Transfers to property, plant and equipment (note 7)		**(8,813)**		(20,900)
Expiries (exploration and evaluation expense)		**(827)**		(2,942)
Impairment		**(2,089)**		(6,788)
Balance, end of period	**$**	**73,667**	$	83,291

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

During the year ended December 31, 2015, there were indicators of impairment in some of NuVista's CGUs that the carrying amount of E&E is not likely to be recovered and an impairment test was performed on E&E assets. E&E assets were evaluated at the CGU level by comparing carrying amounts to the fair value less costs to sell based on trailing twelve month land sales prices in the areas in which the Company owns undeveloped land. The impairment tests resulted in an impairment charge totaling $6.8 million in the Shallow Gas Alberta, Deep Gas and Oil CGUs. This charge has been included in depletion, depreciation, amortization and impairment expense.

7. Property, plant and equipment

		2016		2015
Cost				
Balance, January 1	**$**	**1,545,216**	$	1,355,406
Additions		**187,363**		257,358
Acquisitions		**2,132**		—
Dispositions		**(333,585)**		(95,913)
Change in asset retirement obligations (note 11)		**(3,582)**		7,465
Transfers from exploration and evaluation assets (note 6)		**8,813**		20,900
Balance, end of period	**$**	**1,406,357**	$	1,545,216

		2016		2015
Accumulated depletion, depreciation, amortization and impairment				
Balance, January 1	**$**	**702,181**	$	530,291
Depletion and depreciation expense		**98,883**		160,901
Dispositions		**(243,703)**		(63,410)
Impairments		**—**		74,399
Balance, end of period	**$**	**557,361**	$	702,181

		2016		2015
Carrying value				
Balance, January 1	**$**	**843,035**	$	825,115
Balance, end of period	**$**	**848,996**	$	843,035

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

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

Included in the above is $10 million of impairment from second quarter 2015 as a result of Shallow Gas Alberta CGU assets transferred to assets held for sale, and subsequently disposed.

The following benchmark reference prices were used at December 31, 2015:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	Thereafter
WTI ($US/Bbl) (1)	44.00	52.00	58.00	64.00	70.00	75.00	80.00	85.00	87.88	+2%/yr
AECO (Cdn$/ MMbtu) (1)	2.76	3.27	3.45	3.63	3.81	3.90	4.10	4.30	4.50	+2%/yr

(1) Price forecast effective January 1, 2016.

8. Property dispositions

		2016		2015
Proceeds from dispositions	$	**75,983**	$	26,858
Exploration and evaluation disposed		**(1,360)**		(7,198)
Property, plant and equipment after net accumulated DD&A disposed		**(89,882)**		(32,503)
Asset retirement obligations disposed		**13,753**		10,500
Working capital		**967**		(659)
Loss on property dispositions	$	**(539)**	$	(3,002)

For the year ended December 31, 2016, the Company disposed of mostly non core area assets for gross proceeds of $76.0 million. A loss on dispositions of $0.5 million was recorded in net earnings in the period.

For the year ended December 31, 2015, the Company disposed of mostly non core area assets for gross proceeds of $26.9 million. A loss on dispositions of $3.0 million was recorded in net earnings in the period.

9. Long-term debt

At December 31, 2016, the Company had a $200.0 million (December 31, 2015 – $300.0 million) extendible revolving term credit facility available from a syndicate of Canadian chartered banks. Borrowing under the credit facility may be made by prime loans, bankers' acceptances and/or US libor advances. These advances bear interest at the bank's prime rate and/or at money market rates plus a borrowing margin. For the year ended December 31, 2016, borrowing costs averaged 3.2% (December 31, 2015 – 3.2%). The credit facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a review of the maximum borrowing amount occurs semi-annually on October 31 and April 29. During the term period, no principal payments would be required until a year after the revolving period matures.

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

As at December 31, 2016, the Company had drawn $nil on its credit facility (December 31, 2015 – $196.7 million) and had outstanding letters of credit of $16.9 million, which reduce the credit available on the credit facility. The credit facility does not contain any financial covenants, but the Company is subject to various non-financial covenants under its credit facility. These covenants are monitored on a regular basis and as at December 31, 2016, the Company was in compliance with all covenants.

10. Senior unsecured notes

On June 22, 2016, the Company issued $70.0 million of 9.875% senior unsecured notes ("Notes") with a 5 year term by way of private placement. Proceeds net of discount and costs amounted to $66.9 million. Interest is payable in equal quarterly installments in arrears. The Notes are fully and unconditionally guaranteed as to the payment of principal and interest, on a senior unsecured basis by the Company. There are no maintenance financial covenants.

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

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

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

11. Asset retirement obligations

The Company's 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, 2016, the estimated total undiscounted amount of cash flows required to settle the asset retirement obligations is $128.8 million (December 31, 2015 – $150.8 million), which is estimated to be incurred over the next 50 years. A risk-free rate of 2.3% (December 31, 2015 – 2.2%) and an inflation rate of 2.0% (December 31, 2015 – 2.0%) were used to calculate the net present value of the asset retirement obligations. A reconciliation of the asset retirement obligations is provided below:

		2016		2015
Balance, January 1	**$**	**101,818**	$	111,307
Accretion expense		**1,771**		2,385
Liabilities incurred		**2,332**		2,926
Liabilities disposed		**(13,753)**		(10,500)
Change in estimates and discount rate		**(5,914)**		4,539
Liabilities settled		**(10,791)**		(8,839)
Balance, end of period	**$**	**75,463**	$	101,818
Expected to be incurred within one year	**$**	**8,800**	$	9,501
Expected to be incurred beyond one year	**$**	**66,663**	$	92,317

12. Deferred income taxes

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before deferred income tax expense (benefit) as follows:

		2016		2015
Loss before tax	$	**(3,279)**	$	(166,033)
Expected tax rate [(1)]		**27.00%**		26.00%
Expected income tax benefit		**(885)**		(43,169)
Effect of change in corporate tax rates		**—**		(2,197)
Non-deductible expenses		**1,047**		1,221
Flow-through share renunciations		**4,213**		5,621
Unrecognized deductible assets		**(5,738)**		45,206
Other		**(263)**		210
Total income tax expense (benefit)	$	**(1,626)**	$	6,892

(1) The statutory rate consists of the combined statutory rates for the Company for the years ended December 31, 2016 and 2015. The combined federal and provincial tax rates increased to 27% on July 1, 2015, resulting in a 27%% effective tax rate in 2016 (26% - 2015).

The significant components of the net deferred income tax asset are as follows:

		2016		2015
Deferred tax liabilities				
Oil and natural gas properties	$	**40,226**	$	17,528
Financial derivative contracts		**—**		6,954
		40,226		24,482
Deferred tax assets				
Financial derivative contracts		**(2,098)**		—
Asset retirement obligations		**(20,375)**		(22,513)
Share issue costs		**(1,129)**		(1,813)
Non-capital losses		**(16,360)**		—
Other		**(264)**		(156)
		(40,226)		(24,482)
Net deferred tax (assets) / liabilities	$	**—**	$	—

The unrecognized deductible temporary differences are as follows:

		2016		2015
Non-capital losses	$	**147,150**	$	148,995
Asset retirement obligations		**—**		18,436
Share issue costs		**3,857**	$	—
Total unrecognized deductible temporary differences	$	**151,007**	$	167,431

A continuity of the net deferred tax liability is detailed in the following tables:

Assets (liabilities)	Balance, January 1, 2016	Recognized in profit or loss	Other	**Balance, December 31, 2016**
Oil and natural gas properties	$ (17,528)	$ (22,698)		**$ (40,226)**
Asset retirement obligations	22,513	(2,138)		**20,375**
Share issue costs	1,813	(684)		**1,129**
Financial derivative contracts	(6,954)	9,052		**2,098**
Non-capital losses	—	16,360		**16,360**
Other	156	1,734	(1,626)	**264**
Total	$ —	$ 1,626	$ (1,626)	**$ —**

Assets (liabilities)	**Balance January 1, 2015**	Recognized in profit or loss	Other	Balance, December 31, 2015
Oil and natural gas properties	$ (23,461)	$ 5,933	$ —	$ (17,528)
Asset retirement obligations	27,869	(5,356)	—	22,513
Share issue costs	1,144	(575)	1,244	1,813
financial derivative contracts	(11,821)	4,867	—	(6,954)
Non-capital losses	14,410	(14,410)	—	—
Other	525	2,649	(3,018)	156
Total	$ 8,666	$ (6,892)	$ (1,774)	$ —

In 2015, the Company unrecognized a net deferred tax asset based on the independently evaluated reserves report, as proved developed producing cash flows are not expected to be sufficient to realize the deferred tax asset.

The Company has $207.7 million of non capital losses available which expire between 2026 and 2036.

13. Share capital

Common shares

	2016		2015	
	Number	**Amount**	Number	Amount
Balance, January 1	**153,310,265**	**$ 1,140,170**	138,676,908	$ 1,029,017
Issued for cash on offering of common shares	**15,111,000**	**103,510**	11,465,000	90,000
Issued for cash on offering of flow-through common shares[1]	**3,252,411**	**20,003**	2,544,040	20,861
Issued for cash on exercise of stock options	**956,958**	**4,640**	609,538	2,927
Contributed surplus transferred on exercise of stock options	**—**	**1,592**	—	1,005
Conversion of restricted share awards	**115,013**	**897**	14,779	80
Share issue costs, net of deferred tax benefit of $nil (2015 – $1.2 million)	**—**	**(4,824)**	—	(3,720)
Balance, end of period	**172,745,647**	**$ 1,265,988**	153,310,265	$ 1,140,170

(1) Net of implied premium $1.6 million (2015 - $1.1 million) on flow-through share price compared to trading price at announcement of equity issuance.

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

In June 2016, pursuant to a private placement, the Company issued 3.3 million common shares on a flow-through basis in respect of Canadian Development expenses ("CDE") at a price of $6.65 per share for gross proceeds of $21.6 million. The implied premium on the flow-through common shares was determined to be $1.6 million on the date of issue. Under the terms of the flow-through share agreements, the Company is committed to spend $21.6 million on qualifying CDE prior to December 31, 2016. NuVista has fulfilled its commitment to spend $21.6 million on qualifying CDE.

14. Loss per share

The following table summarizes the weighted average common shares used in calculating net loss per share:

	Year ended December 31	
(thousands of shares)	**2016**	2015
Weighted average common shares outstanding		
Basic	**157,977**	148,523
Diluted	**157,977**	148,523

15. Share-based compensation

Stock Options

The Company has established a stock option plan whereby officers, directors and employees may be granted options to purchase common shares. Options granted vest at the rate of 1/3 per year and expire 2.5 years after the vesting date. The maximum number of stock options currently outstanding and available to be issued as at December 31, 2016 is 9.7 million The following continuity table summarizes the stock option activity:

	2016		2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, January 1	**6,213,614**	**$ 7.14**	6,378,553	$ 7.45
Granted	**2,043,450**	**6.57**	1,608,305	6.22
Exercised	**(956,958)**	**4.85**	(609,538)	4.80
Forfeited	**(344,795)**	**7.88**	(307,703)	8.60
Expired	**(587,133)**	**9.02**	(856,003)	8.87
Balance, end of period	**6,368,178**	**$ 7.09**	6,213,614	$ 7.14
Weighted average share price on date of exercise	**956,958**	**$ 6.67**	609,538	$ 7.74

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2016:

	Options outstanding				Options exercisable		
Range of exercise price	Number of options outstanding	Weighted average remaining contractual life		Weighted average exercise price	Number of options exercisable		Weighted average exercise price
$3.47 to $4.99	1,040,546	2.61	$	4.34	558,491	$	4.41
$5.00 to $9.99	4,795,052	2.89		7.57	2,049,046		7.51
$10.00 to $12.04	532,580	1.90		10.78	355,210		10.78
$3.47 to $12.04	**6,368,178**	**2.76**	**$**	**7.09**	**2,962,747**	**$**	**7.31**

The Company uses the fair value based method for the determination of the share-based compensation costs. The fair value of each option granted during the year was estimated on the date of grant using the Black-Scholes option pricing model.

The weighted average fair value and weighted average assumptions used to fair value the options are as follows:

	2016	2015
Risk-free interest rate (%)	**0.86**	0.92
Expected volatility (%)	**40**	40
Expected life (years)	**4.5**	4.5
Forfeiture rate (%)	**10**	10
Fair value at grant date ($ per option)	**2.24**	2.12

Director Deferred Share Units

In May 2016, shareholders approved a Director Deferred Share Unit ("DSU") incentive plan. Each DSU entitles participants to receive cash equal to the trading price of the equivalent number of shares of the Company. All DSUs granted vest and become payable upon retirement of the director.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of each reporting period. The following table summarizes the change in the number of DSUs.:

	2016	2015
Balance, January 1	**—**	—
Settled	**(5,850)**	—
Granted	**108,045**	—
Balance, end of period	**102,195**	**—**

The following table summarizes the change in compensation liability relating to DSUs:

		2016		2015
Balance, January 1	**$**	**—**	$	—
Change in accrued compensation liabilities		**709**		—
Balance, end of period	**$**	**709**	**$**	**—**

Restricted Stock Units

The Company has a Restricted Stock Unit ("RSU") Plan for employees and officers. Each RSU entitles participants to receive cash equal to the trading price of the equivalent number of shares of the Company. All RSUs granted vest and become payable within three years after the date the RSUs are issued. The Company has phased out the use of the RSU plan. No RSUs were granted in 2016, and as at December 31, 2016, there were no RSU's outstanding.

The compensation expense was calculated using the fair value method based on the trading price of the Company's shares at the end of each reporting year. The following table summarizes the change in the number of RSUs:

	2016	2015
Balance, January 1	**145,665**	501,110
Settled	**(131,166)**	(343,647)
Forfeited	**(14,499)**	(11,798)
Balance, end of period	**—**	145,665

The following table summarizes the change in compensation liability relating to RSUs:

		2016		2015
Balance, January 1	**$**	**463**	$	2,057
Change in accrued compensation liabilities		**(463)**		(1,594)
Balance, end of period	**$**	**—**	$	463
Compensation liabilities – current (included in accounts payable and accrued liabilities)	**$**	**—**	$	463

Restricted Share Awards

The Company has a Restricted Share Award ("RSA") Plan for employees and officers which entitle the employee to receive one common share for each RSA granted upon vesting. RSA grants vest within three years from the date of grant. The maximum number of common shares reserved for issuance under the RSA plan is 1,650,000 of which 1,133,634 remain to be issued.

The fair value of RSAs is determined based on the weighted average trading price of the five days preceding the grant date. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. The amount of the compensation expense is reduced by an estimated forfeiture rate determined at the date of the grant and updated each period. Upon vesting of the RSAs and settlement in common shares, the previously recognized value in contributed surplus will be recorded as an increase to share capital.

The following table summarizes the change in the number of RSAs:

	2016	2015
Balance, January 1	**385,142**	138,181
Settled	**(115,013)**	(14,779)
Granted	**355,500**	275,850
Forfeited	**(31,603)**	(14,110)
Balance, end of period	**594,026**	385,142

The following table summarizes share-based compensation relating to stock options, RSUs, DSUs and RSAs:

	Year ended December 31							
	2016				2015			
	Stock options	**RSU/ DSU**	**RSA**	**Total**	Stock options	RSU/ DSU	RSA	Total
Share-based compensation	**$ 2,651**	**$ 361**	**$ 1,183**	**$ 4,195**	$ 3,865	$ (1,370)	$ 755	$ 3,250
RSU/DSU cash paid	**—**	**889**	**—**	**889**	—	1,753	—	1,753
Share-based compensation expense	**$ 2,651**	**$ 1,250**	**$ 1,183**	**$ 5,084**	$ 3,865	$ 383	$ 755	$ 5,003
Gross capitalized share-based compensation	**$ 510**	**$ (115)**	**$ 371**	**$ 766**	$ 174	$ 176	$ 55	$ 405
RSU cash paid	**—**	**—**	**—**	**—**	—	(399)	—	(399)
Net capitalized share-based compensation	**$ 510**	**$ (115)**	**$ 371**	**$ 766**	$ 174	$ (223)	$ 55	$ 6

16. Capital risk management

The Company's objectives when managing capital are: (i) deploy capital to provide an appropriate return on investment to its shareholders; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations; and (iii) 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, senior unsecured notes 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 current quarter funds from operations. The ratio is calculated as net debt, defined as outstanding senior unsecured notes, long-term debt, add accounts payable and accrued liabilities less cash and cash equivalents less accounts receivable and prepaids before current financial derivative assets and liabilities divided by annualized current quarter funds from operations. Annualized current quarter funds from operations is calculated as current quarter cash flow from operations before asset retirement expenditures and changes in non-cash working capital, annualized for the year. The Company's strategy is to maintain a net debt to annualized current quarter funds from operations ratio of less than 1.5:1. However, in periods of volatile and lower commodity prices, the Company is willing to target a net debt to annualized current quarter funds from operations ratio of approximately 2:1. At December 31, 2016, the Company had a ratio of net debt to annualized current quarter funds from operations of 0.5:1 (2015 – 1.7:1). The actual ratio may fluctuate on a quarterly basis above or below our target due to a number of factors including timing of acquisitions, dispositions and commodity prices.

	2016	2015
Long-term debt	**—**	196,733
Senior unsecured note	**67,156**	—
Accounts payable and accrued liabilities	**52,305**	48,643
Accrued environmental remediation liabilities	**846**	4,790
Add (deduct):		
Cash and cash equivalents	**(5,341)**	—
Accounts receivable and prepaids	**(32,274)**	(29,541)
Net debt [(1)]	**82,692**	220,625
Annualized current quarter funds from operations [(1)]	**162,788**	130,176
Net debt to annualized current quarter funds from operations	**0.5**	1.7

(1) Net debt and annualized current quarter funds from operations do not have any standardized meaning presented by IFRS and therefore may not be comparable to a similar measure of other entities. The Company's calculation of net debt includes senior unsecured notes, long-term debt, add accounts payable and accrued liabilities and accrued environmental remediation liabilities less cash and cash equivalents less accounts receivable and prepaids before current financial derivative assets and liabilities. Annualized current quarter funds from operations is calculated as current quarter cash flow from operations before asset retirement expenditures and changes in non-cash working capital, annualized for the year.

In order to maintain a flexible capital structure, during the year the Company completed various property dispositions for proceeds of $76.0 million and issued 18.4 million common and flow-through shares for gross proceeds of $125.1 million, which was used to initially pay down its long-term debt and fund the remaining 2016/2017 capital program to ensure capital expenditures were aligned to generate the most value.

On June 22, 2016, the Company issued $70.0 million of 9.875% senior unsecured notes ("Notes") with a 5 year term by way of private placement.

The Company's share capital is not subject to external restrictions; however the credit facility borrowing commitment is based on the lenders' semi-annual review of the Company's oil and natural gas reserves. The Company is subject to various non-financial covenants under its credit facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2016, the Company was in compliance with all covenants.

17. Risk management activities

(a) Financial instruments

The Company's financial instruments recognized on the statement of financial position consists of cash and cash equivalents, accounts receivable and prepaids, note receivable, financial derivative contracts, accounts payable and accrued liabilities, accrued environmental remediation liabilities, compensation liability and long-term debt. The carrying value of the long-term debt approximates its fair value as it bears interest at market rates. Except for the financial derivative contracts and compensation liability, which are recorded at fair value, 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 quoted market prices when available, or third-party models and valuation methodologies that use observable market data.

The Company classifies fair value measurements according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's cash and cash equivalents are classified as Level 1 and financial derivative contracts as Level 2. The Company uses third party models and valuation methodologies to determine the fair value of financial derivative contracts. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

(b) Financial assets and financial liabilities subject to offsetting

The following is a summary of the Company's financial assets and financial liabilities that are subject to offsetting:

	December 31, 2016			December 31, 2015		
	Gross financial assets	**Gross financial liabilities**	**Net financial assets**	Gross financial assets	Gross financial liabilities	Net financial assets
Current assets (liabilities)	**$ 3,380**	**$ (12,112)**	**$ (8,732)**	$ 26,000	$ (230)	$ 25,770
Long-term assets (liabilities)	**2,095**	**(1,133)**	**962**	2	(16)	(14)
Net position	**$ 5,475**	**$ (13,245)**	**$ (7,770)**	$ 26,002	$ (246)	$ 25,756

(c) Risk management contracts

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

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

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

Subsequent to December 31, 2016 the following financial derivatives have been entered into:

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

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

The following is a reconciliation of movement in the fair value of financial derivative contracts:

		2016		2015
Fair value of contracts, beginning of year	**$**	**25,756**	$	47,211
Change in the fair value of contracts in the period		**(7,197)**		21,346
Fair value of contracts realized in the period		**(26,329)**		(42,801)
Fair value of contracts, end of year	**$**	**(7,770)**	$	25,756
financial derivative assets (liabilities) – current	**$**	**(8,732)**	$	25,770
financial derivative assets (liabilities) – long term	**$**	**962**	$	(14)

(d) Physical delivery sales contracts

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

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

Subsequent to December 31, 2016, the following physical delivery sales contracts have been entered into:

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

(e) Financial risk management

In the normal course of business, the Company is exposed to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Company's activities.

(i) 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 obligations. 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 interest partners and oil and natural gas sales with oil 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.

The accounts receivable balance was $32.3 million of which $0.1 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. When determining whether past due accounts are uncollectible, the Company factors in the past credit history of the counterparties. 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, 2016.

(ii) 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 the 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, 2016 is as follows:

	Total	1 year	2 to 3 years	4 to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	**52,305**	52,305	—	—	—
Accrued environmental remediation liabilities	**846**	846	—	—	—
Other liabilities	**709**	—	—	—	709
Senior unsecured notes	**67,156**	—	—	67,156	—
Total financial liabilities	**121,016**	53,151	—	67,156	709

(iii) 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 Company is engaged in oil and gas exploration, development and production activities in Canada and as a result has significant exposure to commodity price risk. The Company has adopted a disciplined commodity price risk management program as part of its overall financial management strategy. The Company considers all of these transactions to be economic hedges but does not designate them as hedges for accounting purposes.

(a) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in commodity prices. The Company manages the risks associated with changes in commodity prices through the use of various financial derivative and physical delivery sales contracts. The financial derivative contracts are considered financial instruments but the physical delivery sales contracts are excluded from the definition of financial instruments. The Company uses financial instruments and physical delivery sales contracts to manage oil and natural gas commodity price risk.

(b) Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rate between the Canadian and United States dollars. In addition, NuVista has US dollar denominated receivables and payables which future cash payments are directly impacted by the exchange rate in effect on the payment date.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows 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. The Company had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2016.

If interest rates increase or decreased by 1% it is estimated that net earnings would increase and or decrease by $0.8 million. This is based on the assumption that the interest rate increase or decrease was in effect at the beginning of the year.

(d) Financial instrument sensitivities

The following table summarizes the effects of movement in commodity prices on net earnings due to changes in the fair value of financial derivative contracts in place at December 31, 2016. Changes in the fair value generally cannot be extrapolated because the relationship of a change in an assumption to the change in fair value may not be linear.

		2016	2015
Commodity price risk (earnings)/loss			
Increase in $ WTI – oil $10/Bbl	**$**	**(24,156)**	$ (12,362)
Decrease in $ WTI – oil $10/Bbl		**23,417**	12,362
Increase in $ AECO – gas $0.50/GJ		**(14,526)**	(15,090)
Decrease in $ AECO – gas $0.50/GJ		**14,503**	15,072

18. Financing costs

		2016		2015
Interest expense	$	**10,060**	$	6,499
Accretion of asset retirement obligations		**1,771**		2,385
Total financing costs	$	**11,831**	$	8,884

19. Supplemental cash flow information

		2016		2015
Cash provided by (used for):				
Accounts receivable and prepaid expenses	$	**(1,368)**	$	9,132
Other assets		**(396)**		4,850
Accounts payable and accrued liabilities		**802**		2,373
	$	**(962)**	$	16,355
Related to:				
Operating activities	$	**(649)**	$	9,783
Investing activities		**(313)**		6,572
	$	**(962)**	$	16,355

20. Commitments

The following is a summary of the Company's commitments as at December 31, 2016:

		Total		2017		2018		2019		2020		2021		Thereafter
Transportation and processing [1]	$	**941,966**	$	61,204	$	62,775	$	66,446	$	74,219	$	83,797	$	593,525
Office lease		**3,279**		3,279		—		—		—		—		—
Drilling rig contracts		**2,418**		2,418		—		—		—		—		—
Total commitments	$	**947,663**	$	66,901	$	62,775	$	66,446	$	74,219	$	83,797	$	593,525

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

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

21. Personnel expenses

Key management personnel include the Board of Directors and executive officers of the Company. The compensation included in general and administrative expenses relating to key management personnel for the year was comprised of the following:

		2016		2015
Salaries, wages and short-term benefits	$	**3,475**	$	3,163
Share-based payments [1]		**1,273**		1,341
Total	$	**4,748**	$	4,504

[1] Represents the amortization of share-based compensation expense as recorded in the financial statements.

22. Presentation of expenses

The Company's statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in both operating and general and administrative expenses.

The following table details the amount of total employee compensation costs included in the operating, general and administrative expenses and share-based compensation in the statement of loss and comprehensive loss:

		2016		2015
Operating	**$**	**1,493**	$	3,344
General and administrative		**15,294**		14,751
Share-based compensation		**5,084**		5,003
Total employee compensation costs	**$**	**21,871**	$	23,098