FORMULA
FOR
SUCCESS

Annual Report

2003

NuVista Energy Ltd.

FINANCIAL HIGHLIGHTS

Net Income to Cash Flow Ratio

+36%

Achieved a 36% net income to cash flow ratio based on net income of $5.7 million for the second half of 2003.

Cash Costs

=$4.56/boe

Low field operating expenses, G&A, interest expenses and capital taxes resulted in low cash costs of $4.56 per boe.

Netback

>$20/boe

Strong netbacks of $20.63 per boe were achieved based on average production of 4,133 boe per day in the second half of 2003.

Annualized Cash Flow

=$0.86/share

Annualized cash flow from operations was $0.86/share based upon total second half 2003 cash flow of $15.6 million.

Corporate Profile >

NuVista Energy Ltd. is an independent Canadian oil and natural gas exploration, development and production company with properties located in east central Alberta and west central Saskatchewan. Formed through the reorganization of Bonavista Petroleum Ltd. in July 2003, our objective is to create and sustain profitable per share growth by pursuing an integrated growth strategy. We intend to achieve our objective through exploitation and development of our existing land base; acquisition and subsequent exploitation of new properties; and, through a selective high impact exploration program in the Western Canadian Sedimentary Basin.

NuVista's common shares trade on the Toronto Stock Exchange under the symbol NVA.

OPERATIONAL HIGHLIGHTS

Production

+30%

Increased production by 30% to 4,550 boe/d since inception exceeding our initial target of 4,400 boe/d while spending only 70% of NuVista's $30 million capital budget.

Reserves

+55%

3.0 mmboe of proven reserves were added during the six months, resulting in a 55% increase since the start of operations and replacing production by more than four times.

Undeveloped Land

+29%

Increased undeveloped land by 29% to 221,389 net acres and increased average working interest from 82% to 87%.

Capital Expenditures

=$21 million

Capital expenditures were entirely related to exploration and development activities.

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Annual Meeting >

The Annual Meeting of the shareholders of NuVista Energy Ltd. will be held at 3:00 p.m. on Tuesday, May 18th, 2004, in the Devonian Room of the Calgary Petroleum Club, located at 319 - 5th Avenue SW, Calgary, Alberta. Shareholders who are unable to attend this meeting are requested to complete and return their proxies to the Valiant Trust Company at their earliest convenience.

Message to Shareholders

NuVista was formed in July 2003 as a result of the reorganization of Bonavista Petroleum Ltd. ("Bonavista"). We were launched with two unique assets – a concentrated land and production base that formed part of Bonavista's former Eastern Core Region and a Technical Services Agreement with Bonavista that gave us access to a hand picked team of talented individuals. These two assets provide a strong platform for growth for our company. We have found ourselves in a period of very high commodity prices and strong product demand. Given this supportive environment, we have responded to capture maximum value for our shareholders by building production as efficiently and effectively as possible.

Within a week after the Bonavista reorganization NuVista drilled its first 100% well. The well, drilled on 3D seismic, has led to a number of follow-up locations. We were able to do this because the technical team working on the prospect has been in place for more than two and a half years, delivering organic growth in the Eastern Alberta Natural Gas Region.

In our first six months, NuVista executed a very active exploration and development program, participating in the drilling of 40 wells. NuVista operated 31 of these wells with an average working interest of over 82%. Our Technical Services Agreement with Bonavista has allowed NuVista to lever off Bonavista's programs to coordinate access to drilling rigs, frac crews, service rigs and pipeline crews to reduce costs and increase production. In a highly competitive environment for services, our operations have been managed in a timely and cost effective manner. Our access to Bonavista's talent pool of over 100 highly qualified and dedicated employees has contributed significantly to our achievements.

Between July 2 and December 31, 2003, while spending just 70% of NuVista's original capital expenditure budget for this period, we: increased production by 30% to exit the year at 4,550 boe per day; participated in 40 (27.4 net) wells with an overall success rate of 90%; increased our proven reserves by 55% and replaced production by roughly 400% at a proven finding and development cost of $7.82 per boe; grew our undeveloped land base by 29% to more than 221,000 net acres; enhanced the prospectivity of this undeveloped land by shooting 28 km of 2D and 105 square km of 3D seismic; and achieved average general and administrative expenses of just $0.35 per boe and overall cash costs (operating, general and administrative, interest expenses and capital taxes) of only $4.56 per boe. These numbers firmly rank NuVista as a top-decile performer in the industry.

Production

+30%

In the first six months of operation, NuVista increased production by 30%. The Company intends to meet or exceed this target in 2004.

In our industry, performance achievements of these kinds don't just happen automatically. They are a direct result of following the traditions of technical strength and financial discipline that have already proven successful at Bonavista. NuVista clearly benefits from a six-year effort at Bonavista that recruited highly skilled and motivated individuals, who are focused on value creation. Today, NuVista has adopted the formula for success pioneered at Bonavista – a formula that has already begun to deliver on our promises to NuVista shareholders.

Our Formula For Success

The six key elements in our formula for success are:

- A strong management and technical team;
- A proven strategy for profitable growth;
- Concentrated operations;
- A large and contiguous land position;
- Numerous exploitation and development opportunities; and
- A selective, high impact exploration program.

Each member of our technical and management team, providing services to NuVista through the Technical Services Agreement, is self-motivated and empowered to develop their ideas. They are all rewarded with an ownership stake in NuVista, closely aligning their interests with those of our shareholders. Together, they concentrate their efforts in our core areas, where we can achieve a dominant land position, operate and control infrastructure, and therefore costs, as well as discourage encroachment by competitors. By concentrating their focus in a core area, our team becomes expert in identifying opportunities. Over time, this intimate knowledge enables us to extract maximum value from the asset.

NuVista's goal is to operate with a high working-interest ownership. For this reason, whenever possible, we pursue a leadership role. This enables us to control the pace of development, minimize costs and cycle times between ideas and cash flow, and allows us to accurately forecast the timing and magnitude of our efforts.

Today, NuVista's technical team is focused on medium-depth, medium-risk prospects, which are repeatable and deliver long-term, predictable results. By exploiting that particular niche, from 1998 to

2004 Capital Program

= $70 million

NuVista has targeted drilling 70 – 80 new wells this year with a capital program of $70 million. We plan to dedicate 10% of our exploration and development budget to higher-risk, higher-reward prospects.

2003, Bonavista demonstrated its ability to grow from a small company to an intermediate producer in a profitable manner. We feel that this strategy is still valid, given the nature of the Western Canadian Sedimentary Basin, and NuVista is resolved to employ the same approach.

As a supplement to our predictable low-risk business strategy, we are in an enviable position of being able to access select exploration lands and technical expertise within Bonavista. In 2004, NuVista will dedicate approximately 10% of our exploration and development budget to higher-risk, higher-reward prospects. This small percentage of our capital program will enable our exploration team to test some high impact projects; projects that, while they risk little in terms of overall capital, could provide shareholders with significant rewards if they ultimately succeed.

Even though the NuVista team has already been successful at building reserves and replacing production, we are resolved to continue improving the Company's long-term outlook. For this reason, we are constantly on the hunt for strategic complementary acquisitions that could help us form a new core area in which to lever our expertise. Every opportunity, however, must be carefully evaluated to ensure it complements our defined business strategy. Ideally, each potential acquisition must offer NuVista the opportunity to acquire undeveloped land and seismic, as well as a high working interest ownership and operatorship, in an area where infrastructure is underutilized and further exploitation opportunities exist.

We are also looking for "tuck in" acquisitions in the heart of our existing core areas. These types of acquisitions enable us to solidify our position in areas we know and understand well and reinforce barriers to the type of competition that could affect the profitability of NuVista's projects. In the last half of 2003, NuVista was on the lookout for attractive acquisition opportunities, however the acquisition market was highly competitive, and we exercised considerable financial discipline in this regard. A lack of acquisition expenditures resulted in spending approximately 70% of our original budget.

We did, however, increase our planned expenditures on land and seismic by $3.0 million, in 2003, to further enhance our 2004 exploration and development program. NuVista's land holdings in our existing core areas grew significantly throughout 2003. We purchased land at Crown sales at prices which compared favourably with those in more competitive areas, farmed-in on industry

Success Rate

= 90%

NuVista participated in 40 wells (27.4 net), achieving a 90% success rate resulting in 23 gas (18.7 net), 13 oil (4.7 net) and 4 (4.0 net) dry holes.

partners and purchased undeveloped land from competitors. By devoting more capital than originally planned to land purchases and 3D seismic, NuVista is in an excellent position to continue our organic growth in 2004.

Finally, NuVista continues to enforce stringent cost controls to maintain our financial flexibility throughout the commodity price cycles. We believe that stewardship of a company's capital over the long-term is the single biggest factor in its ability to grow profitably. We are currently enjoying a five year bull market in commodity prices, but we have the experience to know that this industry is as volatile as it is exciting.

The test of time has demonstrated that the low-cost producer can survive any commodity price environment. We know that financial flexibility can enable a company to capitalize on the inevitable acquisition opportunities that occur at the bottom of the commodity price cycle. NuVista is well positioned to capture these opportunities, if and when they arise.

Outlook for 2004

In the first three months of 2004, we have drilled 15 wells (11.1 net). This program resulted in eight natural gas wells, five oil wells and two dry holes, for an 87% success rate. NuVista also operated three shallow gas tests at a 75% working interest, which are currently being evaluated. NuVista operated 15 of the 18 wells that we participated in.

In 2004, NuVista has budgeted to spend approximately $70 million. Over 60% of these expenditures will be on exploration and development activities, which we can control. This program will be spaced evenly throughout the year. The remaining 40% of the capital budget is directed toward acquisitions, the timing of which will vary. We have dedicated up to 10% of our exploration and development capital to higher impact exploration prospects. Although these prospects are not anticipated to have a dramatic impact on NuVista's budgeted volume guidance for 2004, these activities may help to establish new core areas for NuVista in the future.

The implementation of NuVista's $70 million capital program will enable the Company to average between 5,400 to 5,800 boe per day in 2004. This represents a 54% to 66% increase year over year from the 3,500 boe per day NuVista began with in July 2003.

Exit Rate

= 4,550 boe/d

Despite spending only 70% of the Company's original capital program, NuVista exited 2003 at 4,550 boe/d, which was 150 boe/d above the initial target rate.

Our strategy for the remainder of 2004 is straightforward – to use the talent pool afforded to NuVista via the Technical Services Agreement to help us continue to build upon and exploit the opportunities in our vast and highly prospective land base, to implement our high impact exploration strategy and finally to evaluate and consummate acquisition opportunities.

There's no denying NuVista's formula for success is simple:

- Concentrate and dominate in core areas;
- Operate with a high working interest ownership;
- Drill medium-depth, medium-risk prospects;
- Execute timely and strategic acquisitions;
- Invest 10% of our exploration and development capital on higher-risk, higher-reward prospects;
- Enforce stringent cost controls; and
- Maintain our financial flexibility.

Still, simple should never be confused with easy.

We understand that implementing NuVista's strategy will require discipline, expertise, innovation, teamwork and focus. And it will take hard work and determination.

Our participation with Bonavista in the Technical Services Agreement has allowed us the support and guidance given by Bonavista's technical and management team. We are determined to follow in the footsteps of a company that has already proven itself in a very tough arena, and we will continue to leverage NuVista's unique relationship with Bonavista to deliver value to our shareholders.

In closing, we would like to acknowledge the continued support of our Board of Directors and shareholders. We are grateful for the trust and confidence you have placed in NuVista and assure you we are absolutely resolved to build the oil and natural gas industry's benchmark junior performer.

Keith A. MacPhail
Chairman
March 31, 2004

Alex G. Verge
President and Chief Executive Officer

OPERATIONAL PARAMETERS FOR GROWTH

capitalize on the Technical Services Agreement with Bonavista

+

concentrate on and dominate in core regions

+

operate with a high working interest

+

drill medium-depth, medium-risk properties

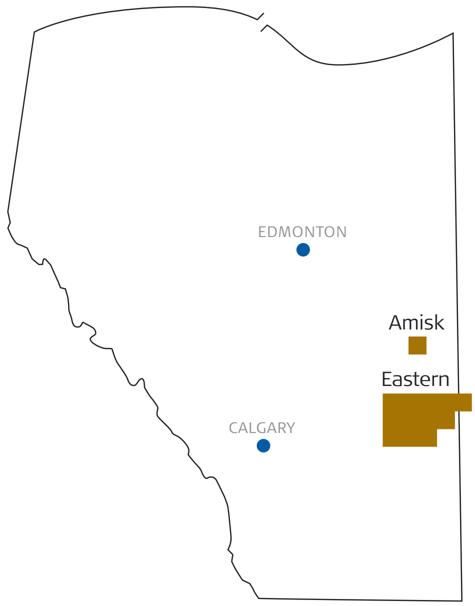
+

invest 10% of capital in higher-risk, higher-reward prospects

=

Formula for Success

Operations Review

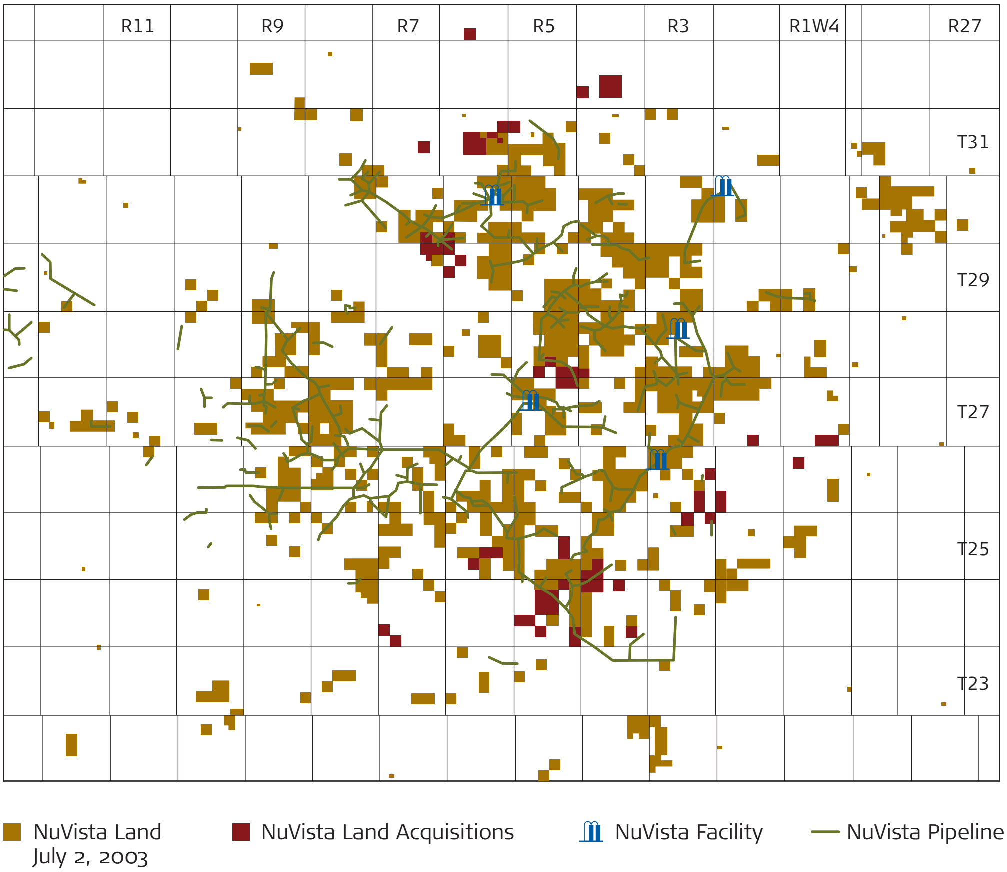


Operationally, our formula for success relies on two key components. First, our ability to draw on the talent and expertise of human resources from Bonavista through the Technical Services Agreement and second, a large, contiguous, high working interest and highly prospective land base in our core areas.

In its first six months, NuVista participated in 40 wells with an overall success rate of 90% and an average working interest of 69%. We operated 31 of these wells, with an average working interest of over 82%, all of which were completed, and brought on production in a timely and cost effective manner in this competitive environment for services. NuVista levered off Bonavista's capital program to coordinate drilling rigs, frac crews, service rigs and pipeline crews to maintain efficiency and reduce costs. NuVista has access to a vast talent pool, with over 100 highly qualified and dedicated employees, while maintaining general and administrative expenses of only $0.35 per boe. This ranks NuVista as a top-decile performer in the industry.

As a result of our drilling program, production increased 30% from 3,500 boe per day in July of 2003 to 4,550 boe per day at year end. Natural gas production increased by 33% from 15.0 mmcf per day to 20.0 mmcf per day, while our oil production increased by 22% to 1,215 bbls per day from 1,000 bbls per day. NuVista was able to exceed our 2003 exit forecast of 4,400 boe per day, while spending only 70% of the original capital budget of $30 million. NuVista's low cost structure allowed it to achieve a strong cash flow netback of $20.63 per boe based on the average production of 4,133 boe per day for the second half of 2003.

EASTERN ALBERTA NATURAL GAS REGION



Core Areas

EASTERN ALBERTA NATURAL GAS REGION

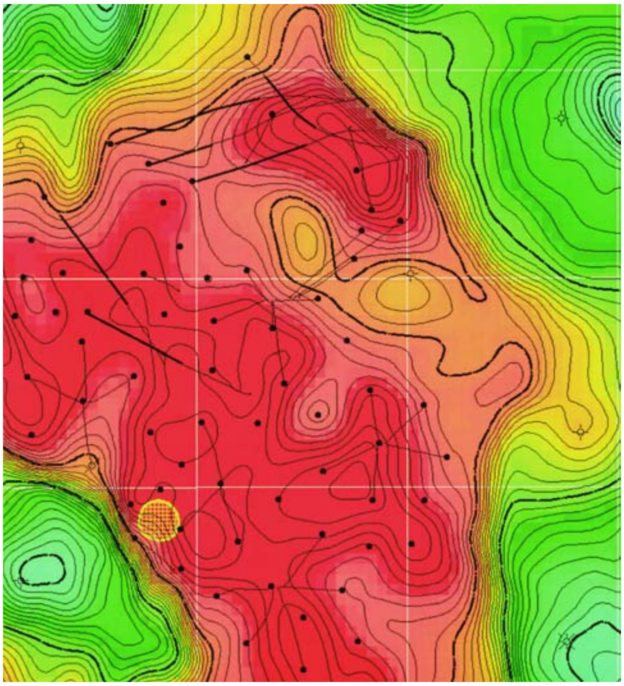
Located 175 km east of Calgary, the Eastern Alberta Natural Gas Region is the main focus of NuVista's exploration and development program. Virtually all of NuVista's undeveloped land is in this region. The average working interest in this area is approximately 85%; with 10 prospective natural gas horizons at drill depths less than 1,100 metres. In 2003, we spent over 75% of our capital in this region participating in 29 wells with a 93% success rate. The average cost to drill, complete and tie-in a well in this area is $350,000, and successful wells have statistically yielded 0.3 – 0.4 bcf of natural gas per well.

In our Eastern Region, we operate five main facilities and a number of field compressors, which process over 90% of our production. We have 45 mmcf per day of processing capacity with a 70% utilization rate. This leaves significant unutilized capacity to expand our production. Our facilities are also linked with over 570 km of pipelines spread throughout the region allowing for cost-effective tie-in costs. There are very few sections within our land base where tie-ins of greater than three km are required. This allows us to connect gas quickly thereby minimizing the cycle time between expenditures and cash flow.

We achieved substantial production growth with natural gas volumes increasing 33% from 15.0 mmcf per day in July 2003 to 20.0 mmcf per day at year end. Oil production in this area also grew 15% from 130 bbls per day in July 2003 to 150 bbls per day at year end. On a boe basis, this region grew 33% from 2,630 boe per day in July 2003 to 3,485 boe per day at year end. In 2004, we expect to drill between 45 to 55 wells in the Eastern Alberta Natural Gas Region.

EASTERN ALBERTA OIL REGION

Located 50 km north of the Eastern Alberta Natural Gas Region, the majority of NuVista's oil production comes from the Amisk oil area. NuVista operates the Amisk pool with a working interest of 54.3%.



NUVISTA HAS A 54.3% WORKING INTEREST IN THE AMISK OIL POOL. SHOWN HERE ON A STRUCTURE MAP DERIVED FROM 3D SEISMIC, THE POOL IS ESTIMATED TO CONTAIN 18.6 MILLION BARRELS OF ORIGINAL OIL IN PLACE.

Production in the Amisk pool comes from the Dina formation with an oil gravity of approximately 20° API. This oil pool, which was acquired by Bonavista in May of 2001, has an active water drive, resulting in a high recovery factor of approximately 50% of the original oil in place. NuVista has 3D seismic coverage over the entire pool. A re-interpretation of the 3D data led to the discovery of an undrained north lobe in late 2002. At the end of 2003, the northern portion of the pool had been assigned 6.3 million barrels of original oil in place by our independent engineers.

NuVista drilled seven wells in late 2003 in this area, six of which were concentrated in this northern lobe. All seven wells were successful and brought on-stream by year end. NuVista's production from the Amisk oil pool increased 22% from 870 bbls per day in July 2003 to 1,065 bbls per day by year end as a result of the drilling program and a number of well optimization initiatives.

We expect to drill between 10 to 15 wells within the Amisk pool in 2004. About half of these will be horizontal wells. Horizontal wells cost approximately $400,000 each and will produce approximately 60,000 bbls of incremental oil. Vertical wells cost approximately $200,000 each, averaging 30,000 bbls of incremental oil. NuVista is also moving forward with a facility expansion followed by a number of additional well optimizations.

Natural Gas Horizons

< 1,100 metres

NuVista's drilling is focused on medium-depth, medium-risk prospects. In the Eastern Alberta Natural Gas Region, NuVista is drilling for 10 prospective horizons at drill depths less than 1,100 metres.

Production from the Amisk oil area is expected to grow modestly in the second quarter of 2004 and will be maintained with development activity for the remainder of the year.

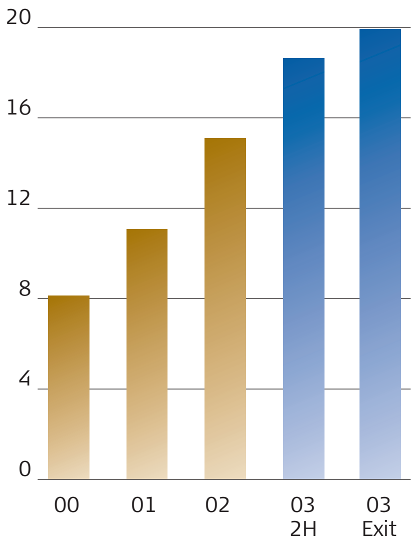
Petroleum Reserves

All of NuVista's 2003 year end reserves were evaluated by independent engineers. Approximately 65% of NuVista's reserves were evaluated by McDaniel & Associates Consultants Ltd. and the remainder by Gilbert Laustsen Jung Associates Ltd.

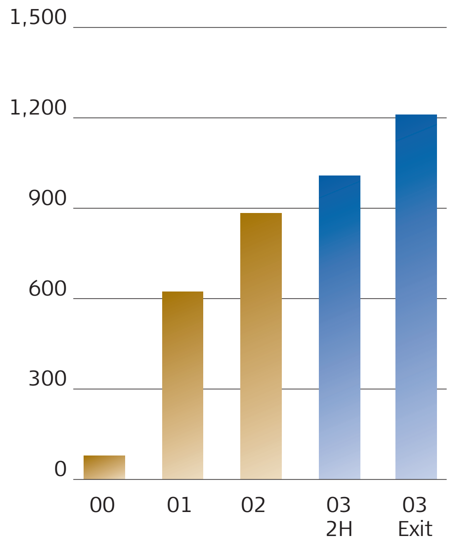
The implementation of the new reserve reporting guidelines National Instrument 51-101 ("NI 51-101") for 2003 resulted in increased confidence levels being required for the reporting of proven reserves and the incorporation of risk in the reporting of probable reserves. In order to compare the opening balance of proven and probable reserves on July 2, 2003 with the year end reserves, the probable reserves as at July 2003 have been reduced by 50% to account for this risk. In addition, all finding and development costs have been adjusted to reflect the change in future capital expenditures required to bring the reserves on-stream. In the current reporting period, changes in future capital expenditures were $2.8 million and $3.0 million in the proven and proven plus probable categories respectively. The net present value of future cash flows in the reserve reports have been reduced to reflect the abandonment costs of all of NuVista's net wells and facilities.

In the last half of 2003, NuVista's capital program of $21 million added 2.64 mmboe of proven reserves and 3.58 mmboe of proven and probable reserves, before revisions, resulting in finding and development costs of $8.98 per boe (proven), and $6.71 per boe (proven and risked probable).

The July 2, 2003 opening balance of proven reserves experienced a positive revision of 7.1% and the proven and risked probable reserves experienced a positive revision of 5.1%. These revisions were largely due to improved performance on some of our natural gas properties. After revisions, the resulting finding and development costs were $7.82 per boe (proven) and $6.12 per boe (proven and risked probable).



Natural Gas Production
(mmcf/d)



Oil Production
(bbls/d)

Production Under Bonavista Ownership

NuVista Production

Proven reserves have increased 55% since we began operations in July 2003. Proven and risked probable reserves have increased 47%. The highlights of NuVista's reserve additions for 2003 are as follows:

› Approximately 90% of the reserve additions were natural gas;
› Reserves have increased from 57% natural gas to 67% natural gas and are now more in line with the current production mix of 74% natural gas;
› Proven producing reserves have increased from 49% to 59% of the total reserves;
› Total proven reserves have increased from 68% of the total reserves to 78%;
› Proven producing reserves have increased from 72% to 76% of the total proven reserves; and,
› NuVista's overall exposure to production variation from a material change in any single well has been reduced.

Independent engineers, McDaniel & Associates Consultants Ltd. and Gilbert Laustsen Jung Associates Ltd., have evaluated all of NuVista's petroleum reserves as at January 1, 2004. The following table summarizes the key information of these reserves:

	Natural Gas		Oil and Liquids		Present Value of Cash Flow Before Tax Discounted at [2]		
	Gross [1]	Net [1]	Gross [1]	Net [1]	0%	10%	15%
	(mmcf)	(mmcf)	(mbbls)	(mbbls)	($ thousands)		
Proven producing	23,828	18,937	1,940	1,754	$102,183	$ 78,432	$ 70,809
Proven non-producing	7,377	5,309	644	536	27,380	19,527	17,086
ARTC	–	–	–	–	2,698	2,019	1,795
Total proven	31,205	24,246	2,584	2,290	132,261	99,978	89,690
Probable	8,609	6,625	728	650	36,836	21,279	17,321
ARTC	–	–	–	–	596	323	248
Total	39,814	30,871	3,312	2,940	$169,693	$121,580	$107,259

(1) "Gross" reserves are the total remaining recoverable reserves owned by NuVista before deduction of royalties. "Net" reserves are defined as those accruing to NuVista after all royalty interests owned by others, including Crown and freehold royalties, have been deducted.

(2) The pricing forecast used in determining the value of cash flow is based on the January 1, 2004 forecast determined by McDaniel & Associates Consultants Ltd.

RECONCILIATION OF RESERVES

	Natural Gas			Oil and Liquids		
	Proven	Probable [1]	Total	Proven	Probable [1]	Total
	(mmcf)			(mbbls)		
Reserves, July 2, 2003	18,711	4,634	23,345	2,389	506	2,895
Net additions	13,752	4,082	17,834	351	251	602
Revisions	2,173	(107)	2,066	29	(29)	–
Production	(3,431)	–	(3,431)	(185)	–	(185)
Reserves, January 1, 2004	31,205	8,609	39,814	2,584	728	3,312

(1) July 2, 2003 Probable reserves have been reduced 50% to account for risk.

Reserve Life Index and Reserve Replacement Ratio

The following table outlines the longevity and the magnitude of reserve additions as indicated in the reserve life index and reserve replacement ratio for NuVista in the second half of 2003.

	Natural Gas	Oil and Liquids	Total Boe
December 31, 2003 exit production	20.0 mmcf/d	1,215 bbls/d	4,550 boe/d
Reserve life index (years)			
Proven reserves	4.3	5.8	4.7
Proven and probable	5.5	7.5	6.0
2nd Half Reserve replacement ratio (reserve additions/production)			
Proven	4.6	2.1	4.0
Proven and probable	5.8	3.3	5.2

Efficiency Ratios

The following table outlines two performance measurements, which depict the overall efficiency of capital invested during the period: finding and on-stream costs and the recycle ratio. NuVista posted solid results in these performance measurements, which provided the foundation for strong growth in profitability.

	Excluding Revisions	Including Revisions
Finding and on-stream costs ($/boe)		
Proven	8.98	7.82
Proven and probable [1]	6.71	6.12
Recycle ratio (cash flow netback/finding and on-stream costs)		
Proven	2.3	2.6
Proven and probable [1]	3.1	3.4

(1) July 2, 2003 Probable reserves have been reduced 50% to account for risk.

Undeveloped Land Holdings

>221,000 net acres

In July of 2003, NuVista had 171,881 net acres of undeveloped land with an average working interest of 82%. By year end, this number had increased to 221,389 net acres with an average working interest over 87%.

Undeveloped Land Holdings

	December 31, 2003	July 2, 2003	% Change
Gross acres	254,156	209,734	21
Net acres	221,389	171,881	29
Average working interest	87%	82%	5
Estimated Value ($ thousands)	12,398	8,407	47

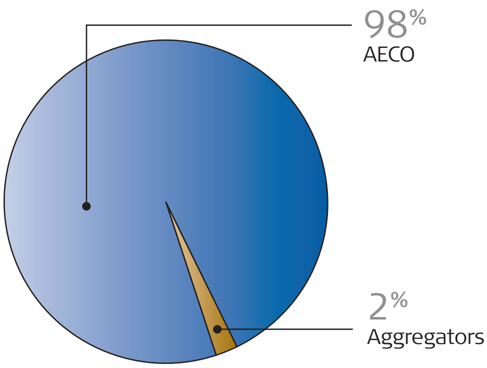
The majority of our undeveloped land is located in the Eastern Alberta Natural Gas Region. In the second half of 2003, NuVista increased its undeveloped land by 29% to 221,389 net acres, in order to facilitate the increased drilling activity in the coming year. Additionally, the average working interest in the undeveloped land increased from 82% to 87%. The additional 49,508 net acres were acquired through crown sales, farm-ins and purchases from other companies. NuVista invested approximately $4.0 million in crown, freehold and third party land purchases in the last half of 2003, in addition to lands acquired through farm-in commitments. We intend to continue this aggressive strategy in 2004. In addition to crown purchases, NuVista has acquired farm-in options on over 25,000 net acres in the first quarter of 2004.

Seismic

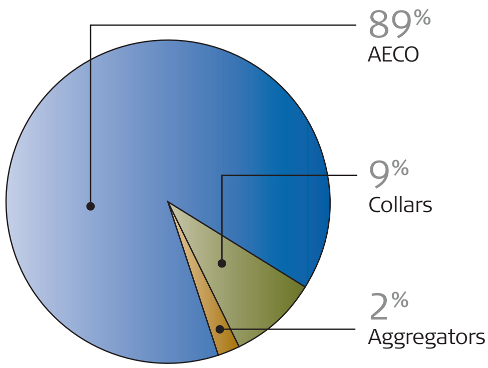
NuVista started July 2003 with over 5,000 km of 2D seismic data and 180 sq km of 3D seismic data. Our seismic program, which complements our land activities and enhances our exploratory opportunities, was extremely active in the last half of 2003. We purchased 413 km of 2D trade data, shot 28 km of 2D proprietary data and 105 sq km of proprietary 3D seismic for a total capital investment of $3.4 million. A substantial amount of new data was acquired in the fourth quarter of 2003 to help establish a number of high quality locations for 2004. This program continues in 2004, with NuVista committing to invest over $1.5 million on seismic in the first quarter to obtain 200 km of 2D seismic data and an additional 55 sq km of 3D seismic data.

Marketing

Contract Portfolios



2003 Natural Gas Price Portfolio
Volumes: 18.7 mmcf/d
Average Price: $5.81/mcf



2004 Natural Gas Price Portfolio
Volumes: 25.0 mmcf/d
Average Price: $6.20/mcf

Natural Gas

NuVista has established a natural gas transportation and sales portfolio which will ensure receipt capacity at a reasonable cost and provide an appropriate customer base. Our marketing objectives also include protecting or securing minimum prices for up to 40% of our net after royalty production for terms not exceeding two years. Our hedging methodology is primarily comprised of costless collars. In order to control and manage credit risk and ensure competitive bids, NuVista engages a number of reputable counter parties for our natural gas transactions. Our sales portfolio also includes sales to traditional aggregators.

The integration and application of these strategies resulted in an average realized price of CDN$5.81 per mcf for the period ending December 31, 2003. For 2004, NuVista is forecasting its natural gas price to average $6.20 per mcf based on an expected average 2004 NYMEX natural gas price of US$5.45 per mmbtu.

Oil and Liquids

NuVista sells its oil and liquids production to a variety of purchasers. This enables us to benefit from specific regional advantages, while maintaining price and delivering flexibility. Our current strategy has only a limited amount of oil price hedging; however, NuVista is continually monitoring global and regional crude oil markets and will be responsive towards hedging up to 40% of our net after royalty production.

In the last six months of 2003, NuVista's average realized oil and liquids price was CDN$28.08 per bbl. The 2004 budget is based on a West Texas Intermediate price of US$32.50 per bbl, which converts to approximately CDN$30.00 per bbl realization price at the wellhead.

Additional details on NuVista's hedging program are shown in our Management's Discussion and Analysis on page 19 of this report.

FINANCIAL PARAMETERS FOR GROWTH

execute timely and
strategic acquisitions

+

enforce stringent cost controls

+

maintain financial flexibility

+

strong management and
technical team

+

commitment to per share growth

=

Formula for Success

Management's Discussion and Analysis

Management's discussion and analysis ("MD&A") for NuVista Energy Ltd. ("NuVista") should be read in conjunction with the audited consolidated statements for the period from the commencement of operations July 2, 2003 to December 31, 2003 and is based on information available to March 31, 2004. Our audited consolidated financial statements, our current annual information form and other disclosure documents are filed on SEDAR at www.sedar.com. Barrel of oil equivalent ("boe") amounts have been calculated using a conversion of six thousand cubic feet of natural gas to one barrel of oil (6 mcf = 1 bbl).

Forward-looking statements

Certain information set forth in this document, including management's assessment of future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the effect 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 available qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and if such actual results, performance or achievements transpire or occur, there can be no certainty as to what benefits we will derive therefrom. We disclaim any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Creation of NuVista Energy Ltd.

On June 26, 2003, the shareholders of Bonavista Petroleum Ltd. approved a corporate reorganization as described in the Plan of Arrangement dated May 23, 2003, which became effective on July 2, 2003.

Through this reorganization, we received approximately 3,500 boe per day of production and 171,881 net acres of undeveloped land. For each share of Bonavista Petroleum Ltd., shareholders received two trust units of Bonavista Energy Trust or two Exchangeable Shares, exchangeable into trust units of Bonavista Energy Trust, and one NuVista common share.

Overview

The tables below set forth a summary of operations, including netbacks for the period from July 2, 2003 to December 31, 2003 and netbacks on a product basis:

	July 2, 2003 to December 31, 2003	
Production	4,133 boe/d	
	($ thousands)	($/boe)
Field netback		
Production revenue	$ 25,134	$ 33.23
Royalties, net of ARTC	(6,079)	(8.04)
Operating expenses	(2,792)	(3.69)
Field netback	16,263	21.50
General and administrative	(268)	(0.35)
Financing charges	(282)	(0.38)
Capital taxes	(107)	(0.14)
Cash flow netback	15,606	20.63
Stock based compensation	(104)	(0.14)
Depreciation, depletion and site restoration	(6,444)	(8.52)
Future income taxes	(3,390)	(4.48)
Net income	$ 5,668	$ 7.49

NETBACK BY PRODUCT

	Natural Gas		Oil and Liquids		Total July 2, 2003 to December 31, 2003	
2003 Production	18.7 mmcf/d		1,009 bbls/d		4,133 boe/d	
	($ thousands)	($/mcf)	($ thousands)	($/bbl)	($ thousands)	($/boe)
Field netback						
Production revenue	$ 19,949	$ 5.81	$ 5,185	$ 28.08	$ 25,134	$ 33.23
Royalties, net of ARTC	(5,305)	(1.55)	(774)	(4.19)	(6,079)	(8.04)
Operating expenses	(1,994)	(0.58)	(798)	(4.32)	(2,792)	(3.69)
Field netback	$ 12,650	$ 3.68	$ 3,613	$ 19.57	$ 16,263	$ 21.50

Production and revenues

Our production for the period from July 2, 2003 and December 31, 2003 averaged 4,133 boe per day representing an 18% increase since commencement of operations. At December 31, 2003, our production was 20.0 mmcf per day of natural gas and 1,215 bbls per day of crude oil for a total of 4,550 boe per day. The increase in production over the period occurred as a result of an active and successful natural gas drilling program in our Eastern Core Region. Natural gas volumes exceeded our forecast to average 18.7 mmcf per day for the period from July 2, 2003 to December 31, 2003. Crude oil volumes remained relatively flat for the period from July 2, 2003 to December 31, 2003, however, we attained an exit rate of 1,215 bbls per day as a result of a 100% success rate in the oil drilling program at Amisk, occurring late in December 2003. Revenues for the period from July 2, 2003 to December 31, 2003 were $25.1 million, comprised of $19.9 million from natural gas and $5.2 million from crude oil. The average natural gas price for the period was $5.81 per mcf and $28.08 per bbl for crude oil.

Hedging policy

We use a hedging program to manage exposure to fluctuations in commodity prices and exchange rates, to provide greater certainty and stability to our revenue stream and help ensure profitability of specific properties or acquisitions. This program is controlled by our Board of Directors and implemented by management. We use physical forward sales, with some financial instruments as part of this risk management program. All of the commodity and foreign exchange contracts are with parties that we believe have minimal counterparty risk. The following is a summary of hedging contracts in place as of December 31, 2003:

PHYSICAL CONTRACTS

	Daily Quantity	Contract Price	Price Index	Term
Natural gas – collars	3,000 gjs	$5.17 – $ 6.62 CDN	AECO	April 2004 – October 2004
Crude oil – collars	200 bbls	$37.00 – $ 42.15 CDN	WTI	January 2004 – March 2004
Crude oil – fixed price	200 bbls	$28.50 US	WTI	April 2004 – June 2004
	200 bbls	$27.50 US	WTI	July 2004 – September 2004

Royalties

Royalties, net of ARTC, for the reporting period were $6.1 million, with an average royalty rate of 24.2%. Natural gas royalties were $5.3 million, with an average royalty rate of 26.6% and crude oil royalties were $774,000 for an average royalty rate of 15.0%.

Operating expenses

Operating expenses for the period ended December 31, 2003 were $2.8 million. On a boe basis, our operating costs were $3.69, which places us in the top decile for oil and natural gas companies in our peer group. Natural gas operating expenses averaged $0.58 per mcf and crude oil expenses were $4.32 per bbl.

GENERAL AND ADMINISTRATIVE EXPENSES

(thousands)		July 2 to December 31, 2003
Gross	$	631
Overhead recoveries		(363)
Net general and administrative expenses	$	268
Per boe	$	0.35

General and administrative expenses, net of overhead recoveries, were $268,000 or $0.35 per boe for the period from July 2, 2003 to December 31, 2003. Included in these expenses is an allocation of $372,000 from Bonavista Petroleum Ltd., pursuant to the Technical Services Agreement entered into as part of the Plan of Arrangement. The Technical Services Agreement has allowed us to initiate and continue with successful and active programs through the use of Bonavista Petroleum Ltd.'s personnel in managing our operations and at the same time benefit from Bonavista Petroleum Ltd.'s low overhead cost structure. In addition, we recorded a non-cash stock based compensation charge of $104,000 in connection with the issue of the Class B Performance shares.

Interest and financing expenses

Interest expense for the reporting period was $282,000 or $0.38 per boe. Currently, our average borrowing rate is approximately 3.5%.

Depreciation, depletion and site restoration

Depreciation, depletion and site restoration expenses were $6.4 million for the period. The average unit cost was $8.52 per boe and is based on the cost of proven reserve additions and allocation of Bonavista Petroleum Ltd.'s net book value of assets we received, in accordance with the Plan of Arrangement.

Income and other taxes

(thousands)		July 2 to December 31, 2003
Future income taxes	$	3,390
Current and Large Corporations Tax		107
Income and other taxes	$	3,497

The provision for income and other taxes for the period from July 2, 2003 to December 31, 2003 was $3.5 million. Included in income taxes for the period is a provision of $107,000 for the Large Corporations Tax.

Cash flow and net income

For the period from July 2, 2003 to December 31, 2003, our cash flow was $15.6 million or $0.43 per share. Our net income during the period was $5.7 million or $0.16 per share. This resulted in a strong net income to cash flow ratio of 36% for the reporting period.

CAPITAL EXPENDITURES

(thousands)	July 2 to December 31, 2003
Land	$ 4,017
Seismic	3,364
Drilling and completions	10,407
Facilities and equipment	3,172
Total capital expenditures	$ 20,960

Capital expenditures were $21.0 million during the period and consisted of only exploration and development spending. These expenditures were considerably lower than the planned amount of approximately $30.0 million for the period due to the reallocation of expenditures from acquisitions to more attractive exploration and development opportunities. In spite of the $9.0 million reduction in budgeted capital expenditures, we exceeded our 2003 exit target by 150 boe per day to achieve 4,550 boe per day. Included in capital expenditures was $317,000 of fees charged by Bonavista Petroleum Ltd., pursuant to the Technical Services Agreement, related to the capital expenditure activities.

Tax pools

NuVista had $100.9 million of tax pools as at December 31, 2003 available for deduction against future years' taxable income. Based on these tax pools, NuVista does not anticipate paying cash income taxes in 2004. The following table summarizes the tax pool balances:

(thousands)	Available Balance	Maximum Annual Deduction (%)
Canadian Exploration Expense	$ 4,700	100
Canadian Development Expense	8,800	30
Canadian Oil and Gas Property Expense	68,300	10
Undepreciated Capital Cost	18,400	8 – 30
Other	700	20
Total	$ 100,900	

Quarterly information

SELECTED QUARTERLY INFORMATION

	2003	
($ thousands, except per share units)	July 2 to September 30	Q4
Revenues	12,399	12,735
Revenues, net of royalties	9,270	9,785
Net income	2,768	2,900
Per share – basic	0.08	0.08
Per share – diluted	0.07	0.08
Production		
Natural gas (mmcf/d)	17.8	19.7
Oil and liquids (bbls/d)	983	1,035
Total oil equivalent (boe/d)	3,949	4,316

Liquidity and capital resources

NuVista's 2004 capital expenditure budget has been set at $70.0 million. This capital program will be financed from approximately $40.0 to $45.0 million of expected 2004 cash flow, with the residual amount being financed from our bank loan facility.

In 2004, most of our capital expenditures will be discretionary and focused on exploration, development and acquisition activities, with only $300,000 of capital expenditures expected to be non-discretionary. We are readily able to adjust our capital expenditures as opportunities arise or to deal with changes in the economic and commodity price environment. As at December 31, 2003, our net debt to running cash flow ratio was approximately 0.4:1.

In anticipation of growing into a larger operating entity through the ongoing acquisition, exploration, and development opportunities, we are planning to increase our bank loan facility in May, 2004. The facility is subject to an annual review by the lenders, at which time a lender can request conversion to a term loan for one year. In September 2003, we completed a public offering of 2.5 million common shares for gross proceeds of $18.4 million to further strengthen our shareholder base, fund the expanded 2004 capital budget and provide flexibility for future years' capital programs.

We settle sales receivables and trade payable in accordance with normal industry practices, with working capital liquidity maintained through drawing and repaying the syndicated demand bank facility.

Business risks

All companies in the Canadian oil and natural gas industry are exposed to a number of business risks, some of which are beyond their control. These risks can be categorized as operational, financial and regulatory.

Operational risks include finding and developing natural gas and oil reserves on an economical basis, reservoir production performance, marketing production, hiring and retaining employees and accessing contract services on a cost effective basis. Through the Technical Services Agreement with Bonavista Petroleum Ltd. these risks are mitigated. This agreement ensures service providers benefit from a compensation system that rewards above average performance and develops strong long-term relationships. We maintain an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, pollution and other business interruptions. We also possess a geologically diverse, but geographically concentrated prospect inventory, undertake a large drilling program and use proven technology where appropriate to minimize the cost of finding and developing natural gas and oil reserves.

Financial risks include commodity prices, interest rates and the $CDN/US exchange rate, all of which are largely beyond our control. While we have used financial instruments in the past, currently there are none in place with respect to these risks other than the physical commodity hedges previously mentioned. Our approach to managing these risks is to maintain a prudent level of debt, enter into certain fixed price, physical delivery and commodity based contracts and to use our strong financial position to fund exploration and development activities and acquisitions through fluctuations in these variables.

We are also subject to various regulatory risks, many of which are beyond our control. We take a proactive approach with respect to environmental and safety matters such as maintaining an environmental and safety program whereby major facilities are regularly audited by an independent consultant. A corporate and site specific emergency response plan is in place and complies with current environmental legislation.

Outstanding share capital

As at March 31, 2004, there were 37,334,418 common shares outstanding.

Standards of disclosure for oil and natural gas activity

On September 30, 2003, new standards of disclosure for oil and gas activities came into effect, under National Instrument 51-101. This instrument prescribes new standards for the preparation and disclosure of oil and natural gas reserves and related estimates for Canadian companies. Additional information relating to our reserves is provided on page 11 of this report.

Continuous disclosure obligations

Effective March 30, 2004 all reporting issuers in Canada will be subject to new disclosure requirements under National Instrument 51-102, Continuous Disclosure Obligations. We continue to assess the implications of this new instrument, which will be implemented in 2004.

Investor confidence rules

Effective March 30, 2004, most reporting issuers in Canada will be subject to new investor confidence rules under National Instrument 52-107, Acceptable Accounting Principles, Auditing Standards and Reporting Currency; National Instrument 52-108, Auditor Oversight; Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings; and Multilateral Instrument 52-110, Audit Committees. We continue to assess the implications of these new instruments, which will be implemented in 2004.

Application of critical accounting policies and estimates

The consolidated financial statements are prepared within the framework of generally accepted accounting principles selected by management and approved by our Board of Directors.

The assets, liabilities, revenues and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. We continually evaluate the estimates and assumptions.

An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain.

The calculation of depletion is considered a critical accounting estimate. We follow the full cost method of accounting for property, plant and equipment. Oil and natural gas properties and royalty interests, including the costs of production equipment and future capital costs associated with proven reserves, are depleted on the unit-of–production method based on estimated proven oil and natural gas reserves before royalties. An increase in estimated proven oil and natural gas reserves would result in a corresponding reduction in depletion expense.

The reserve and recovery information provided are only estimates. The actual production and ultimate reserves may be greater than or less than the estimates and differences may be material. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available, and as economic conditions change. The current estimates of oil and natural gas reserves and our future capital expenditures are based on an independent evaluation conducted as of January 1, 2004. Reserve estimates are updated annually at year end and whenever a significant acquisition is completed.

New accounting standards

HEDGING RELATIONSHIPS

The Canadian Institute of Chartered Accountants (the "CICA") issued Accounting Guideline 13, Hedging Relationships (AcG-13), which is effective for fiscal years beginning on or after July 1, 2003. AcG-13 establishes certain conditions for when hedge accounting may be applied. We will adopt this guideline on January 1, 2004 and we believe it will have no immediate impact as we did not have any financial instruments in place as at December 31, 2003.

DISCLOSURE OF GUARANTEES

Effective March 1, 2003, the CICA issued Accounting Guideline 14, Disclosure of Guarantees (AcG-14). AcG-14 requires that all guarantees be disclosed in the notes to the consolidated financial statements along with a description of the nature and term of the guarantee and an estimate of the fair value of the guarantee. We adopted this guideline on July 2, 2003. Disclosure of our joint ownership in a partnership with Bonavista Petroleum Ltd. has been disclosed in our consolidated financial statements as at December 31, 2003.

ASSET RETIREMENT OBLIGATIONS

The CICA approved Section 3110, Asset Retirement Obligations, effective January 1, 2004. This new standard requires that the fair value of obligations to de-commission facilities and other associated clean-up costs be recorded as an asset retirement obligation in the period in which it is incurred. We will adopt the new standard on January 1, 2004, and the asset retirement obligation will be reflected in the financial statements for the period ended March 31, 2004. When initially recorded, the liability is added to the related property, plant and equipment, subsequently increasing depletion and depreciation expense. In addition, the liability is accrued for the change in present value for each period.

FULL COST ACCOUNTING GUIDELINE

The CICA issued Accounting Guideline 16, Oil and Gas Accounting – Full Cost (AcG-16) to replace CICA Accounting Guideline 5, effective January 1, 2004. The new guideline modifies the ceiling test calculation for future cash on an undiscounted basis using future prices for proven reserves. When the carrying value is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value of assets exceeds the sum of the discounted cash flows expected from the production of proven and probable reserves and the lower of cost and market of unproven properties. The cash flows are estimated using expected future product prices and costs are discounted using a risk free interest rate. We will adopt this guideline on January 1, 2004, and the new ceiling test calculation will be done for the first time at the end of the first quarter. The impact cannot be determined until the calculation is performed.

STOCK BASED COMPENSATION AND OTHER STOCK BASED PAYMENTS

Effective January 1, 2004, the CICA amended Section 3870, Stock Based Compensation and Other Stock Based Payments. The amendment requires that all stock based payments be measured using the fair value method of accounting and recognize the compensation expense on the financial statements. NuVista will adopt the new standard retroactively, on January 1, 2004 with respect to stock options and adopted this standard effective July 2, 2003 with respect to the Class B Performance Shares.

Outlook

We remain committed to the same principles and disciplined growth strategy that led to the tremendous success of Bonavista over the past six years. With an undeveloped land base exceeding 221,000 net acres, an increasing drilling inventory, coupled with a strong balance sheet, we are strategically positioned to continue posting strong operational and financial results for 2004 and beyond.

The Board of Directors has approved a base capital budget of $70.0 million for 2004, which will result in the drilling of 70 to 80 wells. We will continue to focus on our core strategy of applying technical expertise to our operating regions in a prudent and disciplined manner, through both the drill bit and strategic acquisitions. The execution of these strategies will enable us to continue to grow our production, cash flow and net income consistently and profitably both in aggregate and on a per share basis. With current production levels at 4,600 boe per day and continued expectations of exploration, development and acquisition success, we are in an excellent position to achieve the forecasted average production level of 5,600 boe per day in 2004. Assuming an AECO natural gas price of $6.00 per gj and an oil price US $32.50 WTI, we expect cash flow of $43 million or $1.15 per share.

Furthermore, our strong balance sheet with a 0.4:1 debt to cash flow ratio will enable us to execute our 2004 capital program and pursue additional strategic opportunities as they arise. Regardless of price volatility, we have positioned ourselves to deliver profitable growth now and into the future. We remain unwavering in our commitment to enhance shareholder value by utilizing the broad depth and expertise of our dedicated team in a diligent and cost effective manner.

Management's Report

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

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal controls, which are designed to provide reasonable assurance those assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

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

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

Alex G. Verge
President and Chief Executive Officer
February 24, 2004

Glenn A. Hamilton
Vice President and Chief Financial Officer

Auditors' Report

We have audited the consolidated balance sheet of NuVista Energy Ltd. as at December 31, 2003 and the consolidated statements of operations and retained earnings and cash flows for the period from July 2, 2003 to December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the period from July 2, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 24, 2004

Consolidated Balance Sheet

(thousands)

December 31,		2003
Assets		
Current assets:		
Accounts receivable	$	6,251
Oil and natural gas properties and equipment (notes 2 and 3)		76,752
Future tax asset (notes 2 and 6)		8,671
	$	91,674
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$	12,400
Bank loan (note 4)		6,928
Total current liabilities		19,328
Site restoration provision		1,284
Shareholders' equity		
Share capital (note 5)		65,394
Retained earnings		5,668
		71,062
	$	91,674

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Pentti O. Karkkainen
Director

Clayton H. Woitas
Director

Consolidated Statements of Operations and Retained Earnings

(thousands, except per share amounts)

Period from July 2, 2003 to December 31, 2003		
Revenues		
Production	$	25,134
Royalties, net of Alberta Royalty Tax Credit		(6,079)
		19,055
Expenses		
Operating		2,792
General and administrative		268
Financing		282
Stock based compensation		104
Depreciation, depletion and site restoration		6,444
		9,890
Income before income and other taxes		9,165
Income and other taxes (note 6)		3,497
Net income		5,668
Retained earnings, beginning of period		–
Retained earnings, end of period	$	5,668
Net income per share – Basic	$	0.16
Net income per share – Diluted	$	0.15

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands)

Period from July 2, 2003 to December 31, 2003		
Cash provided by (used in):		
Operating Activities		
Net income	$	5,668
Items not requiring cash:		
Depreciation, depletion and site restoration		6,444
Stock based compensation		104
Future income taxes		3,390
Funds flow from operations		15,606
Decrease in non-cash working capital items		106
		15,712
Financing Activities		
Issuance of share capital, net of share issue costs		17,478
Decrease in bank loan (note 4)		(18,163)
		(685)
Investing Activities		
Oil and natural gas properties and equipment		(20,960)
Site restoration expenditures		(110)
Decrease in non-cash working capital items		6,043
		(15,027)
Increase (Decrease) in cash		–
Cash, beginning of period		–
Cash, end of period	$	–

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Period from July 2, 2003 to December 31, 2003

1. Significant accounting policies

As the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions, which have been made using careful judgement. In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

NuVista Energy Ltd. ("NuVista") was established with an effective date of July 2, 2003 under a Plan of Arrangement entered into by Bonavista Energy Trust (the "Trust"), Bonavista Petroleum Ltd. ("Bonavista") and NuVista. Under the Plan of Arrangement, various assets of Bonavista comprising certain producing and exploration assets were transferred to NuVista. As NuVista is a new entity, these financial statements reflect the results of operations for the period from July 2, 2003 to December 31, 2003.

(a) Oil and natural gas operations:

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. General and administrative costs are not capitalized. 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 of 20% or more.

Costs capitalized in the cost centres, including well equipment, together with estimated future capital costs associated with proven reserves, are depreciated and depleted using the unit-of-production method which is based on gross production and estimated proven oil and natural gas reserves as determined by independent engineers. The cost of significant 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. Facilities are depreciated using the declining balance method over their useful lives, which range from 12 to 15 years.

The provision for future site restoration costs is calculated using the unit-of-production method and is included within the provision for depreciation, depletion and site restoration. Costs are estimated each year by management based upon current regulations, costs, technology and industry standards. Actual costs as incurred are charged against the accumulated liability.

In applying the full cost method, NuVista calculates a ceiling test which restricts the capitalized costs less accumulated depreciation and depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and natural gas reserves, based on year end prices and costs, plus the cost, net of impairments, of unproved properties and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

(b) Joint venture accounting:

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

(c) Financial instruments:

From time to time, NuVista may use swap agreements or other financial instruments to hedge its exposure to fluctuations in oil and natural gas prices. Gains and losses arising from these swap arrangements are reported as adjustments to the related revenue account over the term of the financial instrument. Financial instruments are not used for speculative purposes. The carrying values of NuVista's monetary assets and liabilities approximate their fair values.

(d) Stock based compensation:

NuVista has equity incentive plans, which are described in note 5. 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. Any consideration received on exercise of the stock options is credited to share capital. Compensation costs are recognized in the financial statements for the performance shares. Compensation expense relating to stock options is disclosed in note 5.

(e) Income taxes:

NuVista follows the liability method of accounting for future income taxes.

(f) Per share amounts:

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

2. Transfer of assets and commencement of operations

Under the Plan of Arrangement, Bonavista transferred to NuVista certain assets, being certain producing and exploratory oil and natural gas properties in Bonavista's Eastern Core Region, and an allocation of its bank loan. The producing oil and natural gas properties were transferred into a general partnership that is 70% owned by NuVista and 30% owned by Bonavista. As this was a related party transaction, assets and liabilities were transferred at its book value. Details are as follows:

(thousands)		Amount
Oil and natural gas properties and equipment	$	61,825
Future income tax asset		11,751
Total assets transferred		73,576
Bank loan		(29,103)
Provision for site restoration		(983)
Net assets received and common shares issued	$	43,490

The above amounts are estimates, which were made by management at the time of the Plan of Arrangement based on information available at the time. Under the Plan of Arrangement, NuVista entered into a Technical Services Agreement with Bonavista. Under this agreement, Bonavista receives payment for certain technical and administrative services provided by it to NuVista, on a cost recovery basis. Pursuant to the Technical Services Agreement, $372,000 of fees were charged relating to general and administrative activities and $317,000 of fees were charged relating to capital expenditures activities for the period from July 2, 2003 to December 31, 2003.

3. Oil and natural gas properties and equipment

December 31, 2003 (thousands)	Cost	Accumulated depreciation and depletion	Net book value
Oil and natural gas properties	$ 65,307	$ 5,518	$ 59,789
Facilities and well equipment	17,478	515	16,963
	$ 82,785	$ 6,033	$ 76,752

Unproved property costs of $10,713,000 as at December 31, 2003 were excluded from the depreciation and depletion calculation. During the period ended December 31, 2003, NuVista recorded a provision of $411,000 for site restoration in the consolidated financial statements.

4. Bank loan

NuVista has a $32 million revolving production loan facility with a syndicate of Canadian chartered banks, which provides that borrowings may be made by way of prime loans, bankers' acceptances and/or US dollar LIBOR advances. These advances bear interest at the banks' prime rate and/or at money market rates plus a stamping fee. The bank loan facility is secured by a first floating charge debenture, general assignment of book debts and NuVista's oil and natural gas properties and equipment. The facility is subject to an annual review by the lenders.

5. Share capital

(a) Authorized:

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

(b) Issued:

Prior to the completion of the Plan of Arrangement, NuVista completed the private placement of 2,000,000 Common Shares and 1,200,000 Class B Performance Shares for gross proceeds of $4,012,000.

(i) Common Shares

(thousands)	Number	Amount
Outstanding, July 2, 2003	2,000	$ 4,000
Issued pursuant to the Plan of Arrangement (note 2)	32,839	43,490
Issued for cash	2,500	18,375
Stock based compensation	–	104
Reacquired and cancelled	(1)	(2)
Costs associated with shares issued, net of future tax benefit	–	(585)
Outstanding, December 31, 2003	37,338	$ 65,382

(ii) Class B Performance Shares

Each Class B Performance Share was sold for a price of $0.01 per share and is convertible into the fraction of a Common Share equal to the closing trading price of the Common Shares on the Toronto Stock Exchange on the day prior to such conversion less $2.00, if positive, divided by the Common Share closing price. The Class B Performance Shares will automatically convert into Common Shares as to 25% of the Class B Performance Shares outstanding on a pro-rata basis from holders on each of July 1, 2004, 2005, 2006 and 2007. If the NuVista Closing Price less $2.00 is not positive on any conversion date, NuVista will, subject to applicable law, redeem the Class B Performance Shares that would have otherwise been converted at the redemption price of $0.01 per share. The fair value of each Class B Performance Share was determined, at date of issuance, using the Black-Scholes model with the variables described in note 5(e). This amount is amortized over the life of the Class B Performance Share and is included in stock based compensation expense.

(thousands)	Number	Amount
Outstanding, July 2, 2003	1,200	$ 12
Reacquired and cancelled	(4)	–
Outstanding, December 31, 2003	1,196	$ 12

(c) Per share amounts:

During the period from July 2, 2003 to December 31, 2003, there were 36,359,841 weighted average shares outstanding. On a diluted basis, there were 37,336,785 weighted average shares outstanding after giving effect for dilutive stock options.

(d) Stock options:

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

Common Shares. During the period from July 2, 2003 to December 31, 2003, 1,369,800 stock options were granted with prices ranging from $6.30 per share to $7.42 per share.

Stock option summary of transactions for the period from July 2, 2003 to December 31, 2003 are as follows:

	Number	Average weighted exercise price
Outstanding, July 2, 2003	–	–
Granted	1,369,800	$ 6.35
Exercised	–	–
Cancelled	(4,500)	6.30
Outstanding, December 31, 2003	1,365,300	$ 6.35
Exercisable, December 31, 2003	–	–

(e) Stock based compensation:

Under the intrinsic value method, no compensation costs are recorded in the financial statements for stock options granted. If the fair value based method had been used, the stock based compensation costs, pro forma net income and pro forma net income per share would be as follows:

(thousands, except per share amounts)	Period from July 2, 2003 to December 31, 2003
Stock based compensation (stock options)	$ 357
Net income:	
As reported	$ 5,668
Pro forma	$ 5,311
Net income per common share:	
Basic:	
As reported	$ 0.16
Pro forma	$ 0.15
Diluted:	
As reported	$ 0.15
Pro forma	$ 0.14

The pro forma amounts include the compensation costs associated with stock options granted subsequent to July 2, 2003. 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 fair value of stock options granted was $2.41 per share; risk free interest rate was 3.5%; volatility of 40%; and an expected life of 4.5 years.

6. Income 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:

(thousands) Period from July 2, 2003 to December 31, 2003	Amount
Expected tax expense at 40.6%	$ 3,723
Non-deductible crown payments, net	1,846
Resource allowance	(1,809)
Effect of change in tax rate	(412)
Other	42
Capital taxes	107
Provision for income taxes	$ 3,497
The provision for income taxes consists of:	
Current	$ 107
Future	3,390
Provision for income taxes	$ 3,497

The significant components of the future tax asset as at December 31, 2003 are:

(thousands)	Amount
Oil and natural gas properties	$ 6,915
Facilities and well equipment	1,073
Site restoration provision	444
Share issue costs	239
Future tax asset	$ 8,671

7. Hedging activities

As at December 31, 2003, NuVista has entered into physical purchase contracts to sell 200 bbls per day for the period from January 1, 2004 to September 30, 2004 at prices ranging from U.S. $27.50 per bbl to U.S. $31.70 per bbl. In addition, NuVista has sold 1,000 gjs per day for the period from April 1, 2004 to October 31, 2004 by way of a costless collar with a floor price of $5.00 per gj and a ceiling price of $6.25 per gj at AECO.

Corporate Information

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Chairman

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KERN Partners

Ronald J. Poelzer
Bonavista Energy Trust

Alex G. Verge
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Engineering Consultants

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Legal Counsel

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Registrar and Transfer Agent

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ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bbls	Barrels
bbls/d	Barrels per day
bcf	Billion cubic feet
boe	Barrel(s) of oil equivalent
boe/day	Barrel(s) of oil equivalent per day
gj	Gigajoule
km	Kilometres
mbbls	Thousand barrels
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
WTI	West Texas Intermediate

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

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