MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") of financial conditions and results of operations should be read in conjunction with NuVista Energy Ltd.'s ("NuVista" or the "Company") audited financial statements for the year ended December 31, 2015. The following MD&A of financial condition and results of operations was prepared at and is dated March 8, 2016. Our December 31, 2015 audited financial statements, Annual Information Form and other disclosure documents for 2015 will be available through our filings on SEDAR at **www.sedar.com** or can be obtained from our website at **www.nuvistaenergy.com** on or before March 30, 2016.

Basis of presentation

Unless otherwise noted, the financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") also known as International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB."). The reporting and measurement currency is the Canadian dollar. Natural gas is converted to a barrel of oil equivalent ("Boe") using six thousand cubic feet of gas to one barrel of oil. In certain circumstances natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("Mcfe") on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and Mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value.

Advisory regarding forward-looking information and statements

This MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable securities laws. The use of any of the words "will", "expects", "believe", "plans", "potential" and similar expressions are intended to identify forward-looking statements. More particularly and without limitation, this MD&A contains forward looking statements, including management's assessment of: NuVista's future focus, strategy, plans, opportunities and operations; financial and commodity risk management strategy; production mix; the anticipated impact of the proposed Modernized Royalty Framework on NuVista's results of operations; NuVista's planned capital expenditures; the timing, allocation and efficiency of NuVista's capital program and the results therefrom; our ability to fulfill all take or pay ("TOP") obligations; the anticipated potential and growth opportunities associated with NuVista's asset base; production guidance and anticipated production interruptions; sources of funding NuVista's capital program; drilling and completion plans; plans to maintain balance sheet strength and flexibility; future funds from operations; the timing of NuVista's next borrowing base review; asset retirement obligations and the amount and timing of expenditures relating to such asset retirement obligations and the source of funding thereof; the scope, timing and costs of environmental remediation required in connection with the pipeline spill in Northwest Alberta; deferred taxes and NuVista's tax pools; targeted net debt to annualized current quarter funds from operations; expectations regarding future commodity prices, netbacks, price differentials and supply; industry conditions and anticipated accounting changes and their impact on NuVista's operations and financial position. By their nature, forward-looking statements are based upon certain assumptions and are subject to numerous risks and uncertainties, some of which are beyond NuVista's control, including the impact of general economic conditions, industry conditions, current and future commodity prices, currency and interest rates, anticipated production rates, borrowing, operating and other costs and funds from operations, the timing, allocation and amount of capital expenditures and the results therefrom, anticipated reserves and the imprecision of reserve estimates, the performance of existing wells, the success obtained in drilling new wells, the sufficiency of budgeted capital expenditures in carrying out planned activities, access to infrastructure and markets, competition from other industry participants, availability of qualified personnel or services and drilling and related equipment, stock market volatility, effects of regulation by governmental agencies including changes in environmental regulations, tax laws and royalties; the ability to access sufficient capital from internal sources *and bank and equity markets; and including, without limitation, those risks considered under "Risk Factors" in our Annual Information Form. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. NuVista's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, or if any of them do so, what benefits NuVista will derive therefrom. NuVista has included the forward-looking statements in this MD&A in order to provide readers with a more complete perspective on NuVista's future operations and such information may not be appropriate for other purposes. NuVista disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.*

This MD&A also contains future-oriented financial information and financial outlook information (collectively, "FOFI") about NuVista's prospective results of operations and funds from operations, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI and forward-looking statements. NuVista's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and FOFI, or if any of them do so, what benefits NuVista will derive therefrom. NuVista has included the forward-looking statements and FOFI in this press release in order to provide readers with a more complete perspective on NuVista's future operations and such information may not be appropriate for other purposes. NuVista disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Non-GAAP measurements

Within the MD&A, references are made to terms commonly used in the oil and natural gas industry. Management uses "funds from operations", "funds from operations per share", "funds from operations netback", "net debt", "net debt to annualized current quarter funds from operations", "operating netback" and "funds from operations netback" to analyze operating performance and leverage. These terms do not have any standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other entities.

Funds from operations are based on cash flow from operating activities as per the statement of cash flows before changes in non-cash working capital, asset retirement expenditures and environmental remediation expenses. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, per the statement of cash flows, net earnings (loss) or other measures of financial performance calculated in accordance with GAAP.

All references to funds from operations throughout this MD&A are based on cash flow from operating activities before changes in non-cash working capital, asset retirement expenditures and environmental remediation expenses. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net loss per share. Total revenue equals oil and natural gas revenues including realized financial derivative gains/losses. Operating netback equals the total of revenues including realized financial derivative gains/losses less royalties, transportation and operating expenses calculated on a Boe basis. Funds from operations netback is operating netback less general and administrative, restricted stock units and interest expenses calculated on a Boe basis. Net debt is calculated as long-term debt plus adjusted working capital. Adjusted working capital is current assets less current liabilities and excludes the current portions of the financial derivative assets or liabilities and asset retirement obligations. Net debt to annualized current quarter funds from operations is net debt divided by annualized fourth quarter funds from operations.

Description of business

NuVista is an exploration and production company actively engaged in the 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 ("Wapiti Montney"). The common shares of NuVista trade on the Toronto Stock Exchange ("TSX") under the symbol NVA.

Dispositions

NuVista completed various asset dispositions in 2014 and 2015. Substantially all the dispositions were within NuVista's non-core operating areas.

Drilling activity

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
Wells drilled (gross)	**6.0**	5.0	**19.0**	25.0
Wells drilled (net)	**6.0**	5.0	**19.0**	22.9
Average working interest (%)	**100%**	100.0%	**100%**	91.8%

For the three months ended December 31, 2015, NuVista drilled 6 (6.0 net) natural gas wells with a 100% success rate. During the comparable period of 2014, NuVista drilled 5 (5.0 net) natural gas wells also with a 100% success rate.

For the year ended December 31, 2015, NuVista drilled 18 (18.0 net) natural gas wells and 1 (1.0 net) planned disposal well with 100% success rate. For the comparable period of 2014, NuVista drilled 24 (21.9 net) natural gas wells and 1 (1.0 net) planned micro-seismic observation well with a 100% success rate. The net 19.0 wells in 2015 and 22.9 in 2014 were drilled in NuVista's Wapiti Montney operating area with an average working interest of 100% and 91.8% respectively.

Production

	Three months ended December 31			Year ended December 31		
	2015	2014	% Change	**2015**	2014	% Change
Natural gas (Mcf/d)	**96,372**	88,332	9	**92,883**	66,151	40
Condensate & oil (Bbls/d)	**5,400**	4,953	9	**4,940**	3,460	43
Butane (Bbls/d)	**617**	490	26	**510**	462	10
Propane (Bbls/d)	**678**	748	(9)	**582**	623	(7)
Ethane (Bbls/d)	**577**	926	(38)	**533**	756	(29)
Subtotal (Boe/d)	**23,334**	21,839	7	**22,045**	16,326	35
Dispositions (Boe/d) (1)	**21**	1,326	(98)	**363**	2,065	(82)
Total production (Boe/d)	**23,355**	23,165	1	**22,408**	18,391	22
Condensate, oil & NGLs weighting (2) & (3)	**31%**	32%		**30%**	31%	
Condensate & oil weighting (3)	**23%**	22%		**23%**	20%	

(1) Production from properties disposed in the period.

(2) Natural gas liquids ("NGLs") include butane, propane and ethane.

(3) Product weighting is based on total production.

Production by area

	Three months ended December 31, 2015				Three months ended December 31, 2014			
	Natural gas (Mcf/d)	Condensate & oil (Bbls/d)	NGLs (Bbls/d)	**Total (Boe/d)**	Natural gas (Mcf/d)	Condensate & oil (Bbls/d)	NGLs (Bbls/d)	Total (Boe/d)
Wapiti Montney	72,367	5,286	1,024	**18,371**	61,335	4,406	660	15,288
Wapiti Sweet / Non-core	24,005	114	848	**4,963**	26,997	547	1,504	6,551
Subtotal	96,372	5,400	1,872	**23,334**	88,332	4,953	2,164	21,839
Dispositions	(13)	21	3	**21**	6,297	179	98	1,326
Total	96,359	5,421	1,875	**23,355**	94,629	5,132	2,262	23,165
% of Total	69%	23%	8%		68%	22%	10%	

	Year ended December 31, 2015				Year ended December 31, 2014			
	Natural gas (Mcf/d)	Condensate & oil (Bbls/d)	NGLs (Bbls/d)	**Total (Boe/d)**	Natural gas (Mcf/d)	Condensate & oil (Bbls/d)	NGLs (Bbls/d)	Total (Boe/d)
Wapiti Montney	68,091	4,602	785	**16,735**	36,153	2,705	604	9,334
Wapiti Sweet / Non-core	24,792	338	840	**5,310**	29,998	755	1,237	6,992
Subtotal	92,883	4,940	1,625	**22,045**	66,151	3,460	1,841	16,326
Dispositions	1,426	102	23	**363**	9,715	291	155	2,065
Total	94,309	5,042	1,648	**22,408**	75,866	3,751	1,996	18,391
% of total	70%	23%	7%		69%	20%	11%	

Production weighting by area

	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
Wapiti Montney	**79%**	66%	**75%**	51%
Wapiti Sweet / Non-core & dispositions	**21%**	34%	**25%**	49%

Fourth quarter total production of 23,355 Boe/d increased by 1% compared to the comparative period of 2014 and 8% compared to the third quarter of 2015 of 21,622 Boe/d. Wapiti Montney production was 18,371 Boe/d in the fourth quarter, an increase of 12% from 16,400 Boe/d in the third quarter of 2015, with the addition of 6 new wells brought onto production in the quarter. Condensate & oil volumes averaged 23% of total production for the quarter.

For the year ended December 31, 2015, NuVista's average production was 22,408 Boe/d, compared to 18,391 Boe/d in 2014, an increase of 22%. The increase in production is a direct result of the continued capital focus and resulting significant production increases in Wapiti Montney.

Commodity prices

Benchmark prices

	Three months ended December 31			Year ended December 31		
	2015	2014	% Change	**2015**	2014	% Change
Natural gas - AECO (daily) ($/GJ)	**2.34**	3.41	(31)	**2.55**	4.27	(40)
Natural gas - AECO (monthly) ($/GJ)	**2.51**	3.80	(34)	**2.62**	4.19	(37)
Natural gas - NYMEX (monthly) (US$/MMbtu)	**2.27**	4.00	(43)	**2.66**	4.41	(40)
Oil - WTI (US$/Bbl)	**42.18**	73.15	(42)	**48.80**	93.00	(48)
Oil - Edmonton Par - (Cdn$/Bbl)	**52.83**	75.59	(30)	**57.10**	94.47	(40)
Condensate - (Cdn$/Bbl)	**55.55**	79.98	(31)	**60.30**	102.40	(41)
Exchange rate - (Cdn$/US$)	**1.335**	1.136	18	**1.279**	1.105	16

Average selling prices [(1) & (2)]

	Three months ended December 31			Year ended December 31		
	2015	2014	% Change	**2015**	2014	% Change
Natural gas ($/Mcf)	**3.55**	3.77	(6)	**3.64**	4.19	(13)
Condensate & oil ($/Bbl)	**45.28**	72.70	(38)	**51.34**	87.21	(41)
Butane ($/Bbl)	**23.48**	40.22	(42)	**26.39**	52.40	(50)
Propane ($/Bbl)	**(4.17)**	23.10	—	**(2.92)**	37.49	—
Ethane ($/Bbl)	**8.16**	13.96	(42)	**8.20**	14.15	(42)

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

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

NuVista markets its natural gas based on a mix of monthly, daily and fixed AECO pricing. For the three months and year ended December 31, 2015, NuVista's average selling price for natural gas was $3.55/Mcf and $3.64/Mcf respectively, compared to $3.77/Mcf and $4.19/Mcf for the comparative periods of 2014, and $3.55/Mcf in the third quarter of 2015.

Strong demand for condensate in Alberta results in benchmark condensate prices at Edmonton trading at a premium to Canadian light oil prices. NuVista's realized condensate prices include adjustments for pipeline tariffs to Edmonton and quality differentials. Condensate and oil prices averaged $45.28/Bbl in the fourth quarter, a decrease of 38% from $72.70/Bbl for the comparable period in 2014, consistent with a 42% decline in WTI prices being mitigated somewhat by a weakening Canadian dollar. Butane and propane trade at varying discounts to light oil prices depending on market conditions. Propane prices throughout 2015 were severely impacted due to an oversupply in Western Canada. Propane production makes up less than 3% of the Company's total production for the three months and year ended December 31, 2015. Ethane prices are highly correlated to natural gas prices.

Revenues

($ thousands)	Natural gas	Condensate & oil	NGLs [2]	**2015 Total**	2014 Total
	Three months ended December 31				
Oil and natural gas revenues [1]	31,500	22,582	1,510	**55,592**	72,050
Realized gain (loss) on financial derivatives	(89)	11,155	—	**11,066**	4,028
Total revenue [3]	31,411	33,737	1,510	**66,658**	76,078

[1] Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the three months ended December 31, 2015, our physical delivery sales contracts totaled a $6.8 million gain (2014 – $0.8 million loss).
[2] Includes butane, propane, and ethane.
[3] Refer to "Non-GAAP measurements".

($ thousands)	Natural gas	Condensate & oil	NGLs [2]	**2015 Total**	2014 Total
	Year ended December 31				
Oil and natural gas revenues [1]	125,203	94,490	5,992	**225,685**	259,107
Realized gain (loss) on financial derivatives	118	42,683	—	**42,801**	(8,798)
Total revenue [3]	125,321	137,173	5,992	**268,486**	250,309

[1] Natural gas revenue includes price risk management gains and losses on physical delivery sale contracts. For the year ended December 31, 2015, our physical delivery sale contracts totaled a $23.7 million gain (2014 – $8.1 million loss).
[2] Includes butane, propane, and ethane.
[3] Refer to "Non-GAAP measurements".

For the three months ended December 31, 2015, oil and natural gas revenues were $55.6 million, a 23% decrease from $72.1 million for the comparable period of 2014, primarily as a result of a 23% decline in realized prices for the quarter. Oil and natural gas revenues were comprised of $31.5 million of natural gas revenues, $22.6 million of condensate and oil revenues, and $1.5 million of NGL revenues.

For the year ended December 31, 2015, oil and natural gas revenues were $225.7 million, a 13% decrease from $259.1 million for the comparable period in 2014 as a result of a 22% increase in average production including dispositions, which is offset by a 29% decline in realized prices. These revenues were comprised of $125.2 million of natural gas revenue, $94.5 million of condensate and oil revenues, and $6.0 million of NGL revenues.

Commodity price risk management

($ thousands)	Three months ended December 31					
	2015			2014		
	Realized gain (loss)	**Unrealized gain (loss)**	**Total gain (loss)**	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)
Natural gas	**(89)**	**807**	**718**	(479)	1,732	1,253
Condensate, oil and NGLs	**11,155**	**318**	**11,473**	4,507	48,174	52,681
Gain (loss) on financial derivatives	**11,066**	**1,125**	**12,191**	4,028	49,906	53,934

($ thousands)	Year ended December 31					
	2015			2014		
	Realized gain (loss)	**Unrealized gain (loss)**	**Total gain (loss)**	Realized gain (loss)	Unrealized gain (loss)	Total gain (loss)
Natural gas	**118**	**(118)**	**—**	(3,743)	491	(3,252)
Condensate, oil and NGLs	**42,683**	**(21,337)**	**21,346**	(5,055)	53,541	48,486
Gain (loss) on financial derivatives	**42,801**	**(21,455)**	**21,346**	(8,798)	54,032	45,234

NuVista has a disciplined commodity price risk management program as part of its financial risk management strategy. The purpose of this program is to reduce volatility in financial results, protect acquisition economics and help stabilize cash flow against the unpredictable commodity price environment. NuVista's Board of Directors has authorized the use of fixed price, put option and costless collar contracts ("Fixed Price Contracts") for up to 60% of forecast production, net of royalties, for the first twelve month period, up to 50% for the next twelve month period, and up to 40% for the following twelve month period. In addition, the Board of Directors approved limits for entering into natural gas basis differential contracts that are the lesser of 50% of forecast natural gas production, net of royalties, or the volumes that would bring the combined natural gas basis differential contracts and natural gas Fixed Price Contracts to 100% of forecast natural gas production, net of royalties. In November 2015, NuVista's Board of Directors made an amendment to the commodity price risk management program to authorize the use of Fixed Price Contracts for up to 70% of forecast natural gas production, net of royalties, for 2016 volumes.

During the fourth quarter of 2015, the commodity price risk management program resulted in a gain of $12.2 million, consisting of a realized gain of $11.1 million and an unrealized gain of $1.1 million on natural gas and oil contracts compared to a gain of $53.9 million consisting of a realized gain of $4.0 million and an unrealized gain of $49.9 million for the comparable period of 2014.

For the year ended December 31, 2015, the commodity price risk management program resulted in a gain of $21.3 million, consisting of a realized gain of $42.8 million and an unrealized loss of $21.5 million on natural gas and oil contracts compared to a gain of $45.2 million consisting of a realized loss of $8.8 million and an unrealized gain of $54.0 million for the comparable period of 2014.

Price risk management gains on our physical delivery sale contracts totaled $6.8 million and $23.7 million for the three and twelve months ended December 31, 2015 compared to losses of $0.8 million and $8.1 million for the comparable periods of 2014. The mark to market value of the physical delivery sale contracts at December 31, 2015 was a gain of $31.4 million; these fair values are not recorded on the financial statements but are recognized in net earnings as settled.

(a) Financial instruments

The following is a summary of the financial derivatives as at December 31, 2015:

	Volume (Bbls/d)	**Pricing (Cdn$/Bbl)**	**Term of contract**
WTI crude oil sales price derivatives			
Fixed price swap	3,850	$77.55	Jan 1, 2016 - Mar 31, 2016
Fixed price swap	3,000	$81.87	Apr 1, 2016 - Jun 30, 2016
Fixed price swap	2,200	$84.33	Jul 1, 2016 - Sept 30, 2016
Fixed price swap	2,200	$84.33	Oct 1, 2016 - Dec 31, 2016

	Volume (MMbtu/d)	**Pricing (US$/MMbtu)**	**Term of contract**
NYMEX natural gas sales price derivatives			
AECO-NYMEX basis	10,000	$(0.66)	Jan 1, 2016 - Dec 31, 2016
AECO-NYMEX basis	10,000	$(0.70)	Jan 1, 2017 - Dec 31, 2017
Chicago-NYMEX basis	20,000	$0.10	Jan 1, 2016 - Mar 31, 2016
Chicago-NYMEX basis	10,000	$(0.01)	Apr 1, 2016 - Dec 31, 2016
Chicago-NYMEX basis	5,000	$(0.05)	Jan 1, 2017 - Dec 31, 2017
Nymex fixed price swap	10,000	$2.60	Jan 1, 2016 - Dec 31, 2016

Subsequent to December 31, 2015, 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	850	$54.16	Jun 1, 2016 - Dec 31, 2016
Fixed price swap	100	$58.15	Jan 1, 2017 - Jun 30, 2017

	Volume (MMbtu/d)	Pricing (US$/MMbtu)	Term of contract
NYMEX natural gas sales price derivatives			
AECO-NYMEX basis	5,000	$(0.72)	Jan 1, 2017 - Dec 31, 2017
AECO-NYMEX basis	5,000	$(0.67)	Jan 1, 2018 - Dec 31, 2018

(b) Physical delivery sales contracts

The following is a summary of the physical delivery sales contracts as at December 31, 2015:

	Volume (GJ/d)	Pricing (Cdn$/GJ)	Term of contract
AECO natural gas physical delivery sales contracts			
Costless collar	10,000	$3.45 - $3.89	Jan 1, 2016 - Mar 31, 2016
Costless collar	5,000	$3.40 - $3.85	Apr 1, 2016 - Jun 30, 2016
Costless collar	5,000	$3.40 - $3.85	Jul 1, 2016 - Sept 30, 2016
Costless collar	5,000	$3.40 - $3.85	Oct 1, 2016 - Dec 31, 2016
Fixed price swap	62,500	$3.38	Jan 1, 2016 - Mar 31, 2016
Fixed price swap	54,808	$3.26	Apr 1, 2016 - Jun 30, 2016
Fixed price swap	69,500	$3.22	Jul 1, 2016 - Sep 30, 2016
Fixed price swap	69,500	$3.23	Oct 1, 2016 - Dec 31, 2016
Fixed price swap	47,500	$3.33	Jan 1, 2017 - Mar 31, 2017
Fixed price swap	32,500	$3.26	Apr 1, 2017 - Jun 30, 2017
Fixed price swap	22,500	$3.24	Jul 1, 2017 - Sep 30, 2017
Fixed price swap	17,500	$3.32	Oct 1, 2017 - Dec 31, 2017
Fixed price swap	2,500	$2.85	Jan 1, 2018 - Oct 31, 2018

These physical delivery sales contracts are not considered financial instruments and are being accounted for as they settle.

Subsequent to December 31, 2015, 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	2,500	$2.84	Jan 1, 2017 - Dec 31, 2017

Royalties

($ thousands, except % and per Boe amounts)	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
Gross royalties	**4,268**	6,913	**15,777**	29,634
Gas cost allowance ("GCA")	**(3,026)**	(2,466)	**(9,014)**	(7,450)
Royalties	**1,242**	4,447	**6,763**	22,184
% of revenues excluding physical delivery sales contracts	**2.5**	6.1	**3.3**	8.3
% of revenues including physical delivery sales contracts	**2.2**	6.2	**3.0**	8.6
Royalties per Boe	**0.58**	2.09	**0.83**	3.30

For the three and twelve months ended December 31, 2015 , royalties were $1.2 million and $6.8 million respectively, 72% and 70% lower than the $4.4 million and $22.2 million for the comparable period of 2014. On a total dollar basis, royalties decreased by $3.2 million in the fourth quarter of 2015 compared to the comparable period in 2014 due primarily to lower royalties in our non-core areas as a result of declining production, lower commodity prices, dispositions of higher royalty rate assets, and increases in GCA credits received.

As a percentage of revenue including physical delivery sales contracts, the reported average royalty rate for the three months ended December 31, 2015 was 2% compared to 6% for the comparative period of 2014 and consistent with 2% for the third quarter of 2015. Corporate royalty rates decreased in 2015 compared to 2014 due to dispositions of higher royalty rate non-core assets and lower commodity prices. The average royalty rate remained consistent to the third quarter rate of 2%, as Gas Cost Allowance ("GCA") credits received in both the third and fourth quarters of 2015 were realized as a result of the startup of the Bilbo compressor station and partner operated facility CGA credits. Wapiti Montney represents 79% of production and has an average royalty rate excluding GCA of approximately 7% (4% including GCA).

NuVista's physical price risk management activities impact reported royalty rates as royalties are based on government market reference prices and not the Company's average realized prices that include price risk management activities.

In 2016, the provincial government of Alberta announced the key highlights of a proposed Modernized Royalty Framework ("MRF") that will be effective on January 1, 2017. These highlights include providing royalty incentives for the efficient development of conventional crude oil, natural gas, and NGL resources, no changes to the royalty structure of wells drilled prior to 2017 for a 10-year period from the royalty program's implementation date, the replacement of royalty credits/holidays on conventional wells by a revenue minus cost framework with a post-payout royalty rate based on commodity prices, the reduction of royalty rates for mature wells, and a neutral internal rate of return for any give play compared to the current royalty framework. While the provincial government of Alberta has not yet released all of the details on the MRF, the changes are not currently expected to have a material impact on NuVista's results of operations. NuVista will evaluate the impact of the MRF on the Company's expected results of operations and funds from operations as more details are released.

Transportation expenses

($ thousands, except per Boe amounts)	Three months ended December 31		Year ended December 31	
	2015	2014	**2015**	2014
Transportation expense	**2,650**	4,857	**12,644**	10,457
Per Boe	**1.23**	2.28	**1.55**	1.56

Transportation expenses were $2.7 million ($1.23/Boe) for the three months ended December 31, 2015 as compared to $4.9 million ($2.28/Boe) for the comparable period of 2014, and $2.1 million ($1.03/Boe) for the three months ended September 30, 2015. Transportation expenses on a total dollar and per Boe basis for the three months ended

December 31, 2015 decreased from the comparable period in 2014 due to the completion of a new third party liquids pipeline in April 2015. Transportation expenses increased from the third quarter of 2015 due to the start up of the Elmworth compressor station, new wells brought online throughout the fourth quarter, and the start of a new 3 year gas transportation agreement with Alliance Pipeline effective December 1, 2015 to transport gas from Alberta to Chicago.

Transportation expenses were $12.6 million ($1.55/Boe) for the year ended December 31, 2015 compared to $10.5 million ($1.56/Boe) for the comparable period of 2014, and consistent on a per Boe basis due to the increase in production volumes. As expected, trucking costs were high during the first half of 2015 as condensate volumes through the Bilbo compressor station were temporarily trucked to third party facilities for processing prior to the completion of a pipeline connection. Capacity restrictions at various facilities throughout 2015 also contributed to the increased cost.

Operating expenses

	Three months ended December 31		Year ended December 31	
($ thousands, except per Boe amounts)	**2015**	2014	**2015**	2014
Operating expenses	**23,994**	23,271	**97,156**	75,313
Per Boe	**11.17**	10.92	**11.88**	11.22

Operating expenses were $24.0 million ($11.17/Boe) for the three months ended December 31, 2015 compared to $23.3 million ($10.92/Boe) for the comparable period of 2014 and lower than the $25.2 million ($12.68/Boe) for the three months ended September 30, 2015. Fourth quarter operating expenses on a total dollar basis were consistent compared to the comparable period of 2014 with an overall 1% increase in production, mainly driven from the production growth in the Wapiti Montney play offsetting the various property dispositions throughout 2014. On a per Boe basis, expenses increased 2% primarily due to costs associated with the startup of the Elmworth compressor station in June. In addition with the start up of the Keyera liquids pipeline in April 2015, Montney operating costs have increased due to the transportation of raw condensate volumes to the Keyera plant and these charges being treated as operating costs. Prior to April, the majority of NuVista's condensate volumes were trucked and the charges booked as transportation expense. Compared to the prior quarter ended September 30, 2015, operating expenses on a per Boe basis decreased by 12%, consistent with a 12% increase in Wapiti Montney production, completion of a salt water disposal well resulting in reduced water hauling, new wells with higher condensate yields resulting in lower gas gathering and processing charges, and increased utilization of the Elmworth compressor station with more volumes coming online in the quarter.

Operating expenses were $97.2 million ($11.88/Boe) for the year ended December 31, 2015 compared to $75.3 million ($11.22/Boe) for the comparable period of 2014. The increase on a total dollar basis year over year is a direct result of the 79% increase in Wapiti Montney production in 2015.

General and administrative ("G&A")

	Three months ended December 31		Year ended December 31	
($ thousands, except per Boe amounts)	**2015**	2014	**2015**	2014
Gross G&A expenses	**5,200**	6,477	**22,931**	25,535
Overhead recoveries	**(142)**	(623)	**(580)**	(1,628)
Capitalized G&A	**(398)**	(656)	**(2,299)**	(2,626)
Net G&A expenses	**4,660**	5,198	**20,052**	21,281
Gross G&A per Boe	**2.42**	3.04	**2.80**	3.80
Net G&A per Boe	**2.17**	2.44	**2.44**	3.17

G&A, net of overhead recoveries and capitalized G&A, for the three months and year ended December 31, 2015 was $4.7 million ($2.17/Boe) and $20.1 million ($2.44/Boe) respectively compared to $5.2 million ($2.44/Boe) and $21.3 million ($3.17/Boe) for the comparable period of 2014. Gross and net G&A expenses for the year ended December 31, 2015 on a total dollar basis compared to the prior year comparative periods are lower primarily as a result of organizational restructuring and cost reduction initiatives. On a per Boe basis, costs have reduced due to the increased production in the period combined with ongoing G&A cost reduction initiatives.

Share-based compensation

	Three months ended December 31		Year ended December 31	
($ thousands)	**2015**	2014	**2015**	2014
Stock options	**945**	1,015	**3,865**	3,286
Restricted stock units	**(64)**	(304)	**383**	5,427
Restricted share awards	**256**	43	**755**	211
Total	**1,137**	754	**5,003**	8,924

NuVista recorded a share-based compensation charge of $1.1 million for the three months ended December 31, 2015, consistent with the $0.8 million for the comparable period in 2014. For the year ended December 31, 2015, NuVista recorded an expense of $5.0 million compared to the same period of 2014 of $8.9 million. The share-based compensation charge relates to the amortization of the fair value of stock option awards and restricted share awards ("RSA") and the accrual for future payments under the restricted stock unit ("RSU") plan. The reduction in the year ended December 31, 2015, compared to the comparable period of 2014 is a result of no RSU's being granted since 2014 therefore a decreasing number of RSU's remaining being valued at a lower share price in 2015 compared to 2014, as well as valuing stock options and RSA's in the period at a lower share price. The December 31, 2015 closing price per share was $4.07 compared to $7.41 for December 31, 2014, resulting in lower RSU expense in the period.

Interest expenses

	Three months ended December 31		Year ended December 31	
($ thousands, except per Boe amounts)	**2015**	2014	**2015**	2014
Interest expense	**1,632**	1,906	**6,499**	5,672
Per Boe	**0.76**	0.89	**0.79**	0.84

Interest expense for the three months ended December 31, 2015 was $1.6 million ($0.76/Boe) compared to $1.9 million ($0.89/Boe) for the same period of 2014. The interest expense for the year ended December 31, 2015 was $6.5 million ($0.79/Boe) compared to $5.7 million ($0.84/Boe) for 2014. Interest expense for the year ended December 31, 2015 increased compared to the same period in 2014 due to higher debt levels throughout 2015 partially offset by a lower borrowing cost and interest rate. Average borrowing costs for the three months and year ended December 31, 2015 were 3.0% and 3.2% respectively compared to average borrowing costs of 3.7% and 3.4% for the comparable periods of 2014. Cash paid for interest for the three months and year ended December 31, 2015 was $1.7 million and $6.9 million compared to $1.6 million and $3.7 million for the comparable period in 2014.

Funds from operations

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

	Three months ended December 31		Year ended December 31	
($ thousands)	**2015**	2014	**2015**	2014
Cash provided by operating activities	**28,585**	31,292	**111,403**	86,170
Add back:				
Environmental remediation expense	**1,300**	—	**9,300**	—
Asset retirement expenditures	**3,284**	2,455	**8,839**	8,579
Note receivable impairment	**5,230**	—	**5,230**	—
Change in non-cash working capital	**(5,855)**	2,956	**(9,783)**	15,226
Funds from operations[1]	**32,544**	36,703	**124,989**	109,975

[1] Refer to "Non-GAAP measurements".

The tables below summarize operating netbacks by area for the three months ended December 31, 2015 and 2014:

	Wapiti Montney		Wapiti Sweet / Non-core		Corporate	Three months ended December 31, 2015	
($ thousands, except per Boe amounts)	$	$/Boe	$	$/Boe	$	**$**	**$/Boe**
Oil and natural gas revenues [1]	41,586	24.60	7,225	15.76	6,781	**55,592**	**25.88**
Realized gain (loss) on financial derivatives[2]	—	—	—	—	11,066	**11,066**	**5.15**
	41,586	24.60	7,225	15.76	17,847	**66,658**	**31.03**
Royalties	(2,552)	(1.51)	1,310	2.86	—	**(1,242)**	**(0.58)**
Transportation expenses	(1,985)	(1.17)	(665)	(1.45)	—	**(2,650)**	**(1.23)**
Operating expenses	(18,792)	(11.12)	(5,202)	(11.35)	—	**(23,994)**	**(11.17)**
Operating netback[3]	18,257	10.80	2,668	5.82	17,847	**38,772**	**18.05**
General and administrative[2]	—	—	—	—	(4,660)	**(4,660)**	**(2.17)**
Restricted stock units[2]	—	—	—	—	64	**64**	**0.03**
Interest expense[2]	—	—	—	—	(1,632)	**(1,632)**	**(0.76)**
Funds from operations netback[3]	18,257	10.80	2,668	5.82	11,619	**32,544**	**15.15**

[1] Includes price risk management gains of $6.8M on physical delivery sales contracts, not allocated by area.
[2] Amounts not allocated by area.
[3] Refer to "Non-GAAP measurements".

	Wapiti Montney		Wapiti Sweet / Non-core		Corporate	Three months ended December 31, 2014	
($ thousands, except per Boe amounts)	$	$/Boe	$	$/Boe	$	**$**	**$/Boe**
Oil and natural gas revenues [1]	53,716	38.19	19,112	26.37	(778)	**72,050**	**33.81**
Realized gain (loss) on financial derivatives[2]	—	—	—	—	4,028	**4,028**	**1.89**
	53,716	38.19	19,112	26.37	3,250	**76,078**	**35.70**
Royalties	(2,253)	(1.60)	(2,194)	(3.03)	—	**(4,447)**	**(2.09)**
Transportation expenses	(4,340)	(3.09)	(517)	(0.71)	—	**(4,857)**	**(2.28)**
Operating expenses	(15,882)	(11.29)	(7,389)	(10.19)	—	**(23,271)**	**(10.92)**
Operating netback[3]	31,241	22.21	9,012	12.44	3,250	**43,503**	**20.41**
General and administrative[2]	—	—	—	—	(5,198)	**(5,198)**	**(2.44)**
Restricted stock units[2]	—	—	—	—	304	**304**	**0.14**
Interest expense[2]	—	—	—	—	(1,906)	**(1,906)**	**(0.89)**
Funds from operations netback[3]	31,241	22.21	9,012	12.44	(3,550)	**36,703**	**17.22**

[1] Includes price risk management losses of $0.8M on physical delivery sales contracts, not allocated by area.
[2] Amounts not allocated by area.
[3] Refer to "Non-GAAP measurements".

For the three months ended December 31, 2015, NuVista's funds from operations were $32.5 million ($0.21/share, basic); a decrease of 11% from $36.7 million ($0.26/share, basic) for the three months ended December 31, 2014 and increased slightly compared to $31.8 million ($0.21/share, basic) in the third quarter of 2015.

The tables below summarize operating netbacks by area for the year ended December 31, 2015 and 2014:

	Wapiti Montney		Wapiti Sweet / Non-core		Corporate	Year ended December 31, 2015	
($ thousands, except per Boe amounts)	$	$/Boe	$	$/Boe	$	**$**	**$/Boe**
Oil and natural gas revenues [1]	164,478	26.93	37,553	18.13	23,654	**225,685**	**27.59**
Realized gain (loss) on financial derivatives[2]	—	—	—	—	42,801	**42,801**	**5.23**
	164,478	26.93	37,553	18.13	66,455	**268,486**	**32.82**
Royalties	(6,548)	(1.07)	(215)	(0.10)	—	**(6,763)**	**(0.83)**
Transportation expenses	(10,158)	(1.66)	(2,486)	(1.20)	—	**(12,644)**	**(1.55)**
Operating expenses	(72,166)	(11.81)	(24,990)	(12.07)	—	**(97,156)**	**(11.88)**
Operating netback[3]	75,606	12.39	9,862	4.76	66,455	**151,923**	**18.56**
General and administrative[2]	—	—	—	—	(20,052)	**(20,052)**	**(2.44)**
Restricted stock units[2]	—	—	—	—	(383)	**(383)**	**(0.05)**
Interest expense[2]	—	—	—	—	(6,499)	**(6,499)**	**(0.79)**
Funds from operations netback[3]	75,606	12.39	9,862	4.76	39,521	**124,989**	**15.28**

[1] Includes price risk management gains of $23.7M on physical delivery sales contracts, not allocated by area.
[2] Amounts not allocated by area.
[3] Refer to "Non-GAAP measurements".

	Wapiti Montney		Wapiti Sweet / Non-core		Corporate	Year ended December 31, 2014	
($ thousands, except per Boe amounts)	$	$/Boe	$	$/Boe	$	**$**	**$/Boe**
Oil and natural gas revenues (1)	154,466	45.33	112,789	34.11	(8,148)	**259,107**	**38.60**
Realized gain (loss) on financial derivatives(2)	—	—	—	—	(8,798)	**(8,798)**	**(1.31)**
	154,466	45.33	112,789	34.11	(16,946)	**250,309**	**37.29**
Royalties	(7,290)	(2.14)	(14,894)	(4.50)	—	**(22,184)**	**(3.30)**
Transportation expenses	(7,729)	(2.27)	(2,728)	(0.82)	—	**(10,457)**	**(1.56)**
Operating expenses	(37,900)	(11.12)	(37,413)	(11.32)	—	**(75,313)**	**(11.22)**
Operating netback(3)	101,547	29.80	57,754	17.47	(16,946)	**142,355**	**21.21**
General and administrative(2)	—	—	—	—	(21,281)	**(21,281)**	**(3.17)**
Restricted stock units(2)	—	—	—	—	(5,427)	**(5,427)**	**(0.81)**
Interest expense(2)	—	—	—	—	(5,672)	**(5,672)**	**(0.84)**
Funds from operations netback(3)	101,547	29.80	57,754	17.47	(49,326)	**109,975**	**16.39**

(1) Includes price risk management losses of $8.1M on physical delivery sales contracts, not allocated by area.

(2) Amounts not allocated by area.

(3) Refer to “Non-GAAP measurements”.

For the year ended December 31, 2015, funds from operations were $125.0 million ($0.84/share, basic) compared to $110.0 million ($0.81/share, basic) for the comparable period of 2014. Funds from operations were higher compared with the same period in 2014 due primarily to higher production levels, lower royalty costs and greater realized gains on derivatives, partially offset by higher transportation and operational costs as well as lower realized oil and natural gas prices.

Environmental remediation expense

During the third quarter of 2015, NuVista identified a leak in a remote pipeline carrying oil emulsion in its non-core area of Northwest Alberta. The pipeline was immediately shut down and NuVista’s emergency response plan was activated. In cooperation with local governmental regulators, first nation bands and with the assistance of qualified consultants, NuVista immediately commenced remediation and restoration activities. To date, there have been no injuries or wildlife fatalities associated with the release. The Company’s insurers have been notified and are currently evaluating to determine if this is an insurable event. The Company has recorded $9.3 million in environmental remediation expense which is the current best estimate of the total cost of remediation, of which $4.5 million has been spent as of December 31, 2015. It is anticipated that the majority of the remaining remediation will continue to occur throughout 2016.

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

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

	Three months ended December 31		Year ended December 31	
($ thousands, except per Boe amounts)	**2015**	2014	**2015**	2014
Depletion of oil and gas assets	**76,264**	25,354	**147,772**	81,539
Depreciation of fixed assets	**4,131**	2,675	**13,129**	7,494
DD&A expense	**80,395**	28,029	**160,901**	89,033
DD&A rate per Boe	**37.42**	13.15	**19.67**	13.26
Property, plant and equipment impairment expense	**8,958**	43,386	**74,399**	59,137
E&E impairment expense	**—**	—	**6,788**	—
Total Impairment expense	**8,958**	43,386	**81,187**	59,137
Total DD&A and impairment expense	**89,353**	71,415	**242,088**	148,170

DD&A expense was $80.4 million for the fourth quarter of 2015 as compared to $28.0 million for the comparable period in 2014. The average per unit cost was $37.42/Boe in the fourth quarter of 2015 as compared to $13.15/Boe for the comparable period in 2014 and $14.82/Boe in the third quarter of 2015. DD&A expense was $160.9 million ($19.67/Boe) million for the year ended December 31, 2015 compared to $89.0 million ($13.26/Boe) for the comparable period in 2014. In the fourth quarter of 2015, NuVista reported adjustments to its reserve base which reflect the sharp decline and outlook for commodity prices, as well as the lack of future development capital allocated to certain non-core properties. As a result, NuVista recorded accelerated depletion of $55.9 million for non-core properties with no proved plus probable reserves at December 31, 2015. These properties had minimal production and will not be developed by NuVista in the future. The Wapiti Montney DD&A rate per Boe for three and twelve months ended December 31, 2015 was $11.26/Boe and $13.08/Boe respectively compared to $12.37/Boe and $12.86/Boe for the comparable period of 2014.

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

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

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

In June 2014, certain oil and gas assets were reclassified as assets held for sale. Upon reclassifying these assets to assets held for sale, the Company recorded an impairment expense of $59.1 million.

Exploration and evaluation

Exploration and evaluation expense for the fourth quarter of 2015 was $0.2 million compared to $2.3 million in the comparable period of 2014. Exploration and evaluation expense for the year ended December 31, 2015 was $2.9 million compared to $11.4 million in the prior year comparative period. Exploration and evaluation expense relates to land expiries of assets held as exploration and evaluation assets.

Asset retirement obligations

Asset retirement obligations (“ARO”) are based on estimated costs to reclaim and abandon ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. At December 31, 2015, NuVista has an ARO balance of $101.8 million as compared to $111.3 million as at December 31, 2014. The liability was discounted using a risk free discount rate of 2.2% at December 31, 2015 (December 31, 2014 – 2.3%). At December 31, 2015, the estimated total undiscounted amount of cash flow required to settle NuVista’s ARO was $150.8 million (December 31, 2014 – $172.6 million). The majority of the costs are expected to be incurred between 2016 and 2035. Actual ARO expenditures for the three months and year ended December 31, 2015 were $3.3 million and $8.8 million respectively (December 31, 2014 – $2.5 million and $8.6 million). The decrease in ARO compared to the same period of 2014 is primarily a result of ARO relating to properties disposed in the year in the amount of $10.5 million and NuVista's ongoing abandonment program with abandonment expenditures in 2015 of $8.8 million. This is partially offset by the addition of new wells and facilities in the year of $2.9 million.

There are uncertainties related to asset retirement obligations and the impact on the financial statements could be material as the eventual timing and expected costs to settle these obligations could differ from our estimates. The main factors that could cause expected costs to differ are changes to laws, regulations, reserve estimates, costs and technology. Any reclamation or abandonment expenditures will generally be funded from cash flow from operating activities.

Capital expenditures

	Three months ended December 31		Year ended December 31	
($ thousands)	**2015**	2014	**2015**	2014
Exploration and evaluation assets and property plant and equipment				
Land and retention costs	**83**	108	**1,097**	4,777
Seismic	**1,096**	1,354	**9,737**	5,091
Drilling and completion	**38,245**	44,657	**168,902**	189,546
Facilities and equipment	**12,841**	21,794	**93,295**	112,315
Corporate and other	**13**	55	**211**	479
Capital expenditures	**52,278**	67,968	**273,242**	312,208

Capital expenditures were $52.3 million during the fourth quarter of 2015 compared to $68.0 million incurred for the comparable period of 2014. The majority of capital expenditures in the fourth quarter was $38.2 million (73%) relating to drilling and completion, compared to $44.7 million (66%) in the comparative period of 2014. For the year ended

December 31, 2015, NuVista's capital expenditures were $273.2 million compared to the 2015 capital budget of $280 million and $312.2 million for the comparative period of 2014. Substantially all capital expenditures in 2015 were spent on liquids-rich natural gas projects in our Wapiti Montney play. NuVista spent $41.2 million during the first half of 2015 constructing a compressor station in the Elmworth area with ultimate through-put capacity of 80 MMcf/d of raw gas and 4,000 Bbls/d of condensate. This compressor station was brought on line in June.

Acquisitions and dispositions

For the three months ended December 31, 2015, there were strategic undeveloped land acquisitions of $5.7 million compared to $35.1 million in the comparative period for 2014. During the fourth quarter of 2015, NuVista sold assets for proceeds after closing adjustments of $12.9 million, resulting in a loss on dispositions of $4.9 million.

For year ended December 31, 2015 there were undeveloped land acquisitions of $6.3 million and $45.2 million for the comparable period of 2014. For the year ended December 31, 2015, proceeds from non-core property dispositions were $26.9 million compared to $81.6 million for the year ended December 31, 2014. The Company recognized a loss on property dispositions in the amount of $3.0 million in the year ended December 31, 2015, compared to a loss of $68.7 million in the comparable period of 2014.

Note receivable allowance

In December 2013, NuVista disposed of assets in a non-core operating area for cash proceeds and a $5 million note receivable, payable in 3 years with yearly interest payment terms. The allowance recognized at December 31, 2015 on the note receivable results from uncertainty on collection from the counterparty.

Income taxes

For the year ended December 31, 2015, the provision for income taxes was an expense of $6.9 million compared to a benefit $11.8 million for the comparable period of 2014. The Company unrecognized its deferred income tax asset of $9.4 million to $nil during the third quarter of 2015 with no change for December 31, 2015, as a result of projected of future cash flows at the current commodity prices being less than the Company's total tax pools.

Tax pools

At December 31, 2015, NuVista had approximately $1,011 million (2014 – $888 million) of estimated tax pools available for deduction against future years' taxable income.

	Available tax pools	Maximum annual deduction
($ millions)	**2015**	%
Canadian exploration expense	**217**	100%
Canadian development expense	**270**	30% declining balance
Canadian oil and natural gas property expense	**135**	10% declining balance
Undepreciated capital cost	**233**	25% declining balance
Non-capital losses	**149**	100%
Other	**7**	various rates
Total federal tax pools	**1,011**	
Additional Alberta tax pools	**8**	100%

Net loss

For the three months ended December 31, 2015, net loss totaled $69.1 million ($0.45/share, basic) compared to a net loss of $42.5 million ($0.31/share, basic) for the comparable period in 2014. For the year ended December 31, 2015, net loss totaled $172.9 million ($1.16/share, basic) compared to $58.9 million ($0.43/share, basic). The increase in net loss for the period is primarily due to impairment of both exploratory and evaluation assets of $6.8 million and property, plant and equipment assets of $74.4 million as well as increased depletion due to fully depleting the Oil and North Gas CGUs in the forth quarter of 2015 which increased depletion for the quarter by $55.9 million. NuVista also recognized a deferred tax expense due to the derecognition of its deferred tax asset in the amount of $6.9 million in the third quarter of 2015. Lower realized commodity prices, unrealized losses on financial derivatives, and higher operating costs associated with higher production levels also added to the increase net loss for the period. These losses were partially offset by realized gains on derivatives of $42.8 million for the year ended December 31, 2015.

Liquidity and capital resources

($ thousands)	**December 31, 2015**	December 31, 2014
Common shares outstanding	**153,310**	138,677
Share price[1]	**4.07**	7.41
Total market capitalization	**623,972**	1,027,597
Adjusted working capital deficit[2]	**23,892**	11,801
Long-term debt	**196,733**	171,969
Debt, net of adjusted working capital (“Net debt”)	**220,625**	183,770
Annualized current quarter funds from operations[2]	**130,176**	146,812
Net debt to annualized current quarter funds from operations[2]	**1.7**	1.3

(1) Represents the closing price on the Toronto Stock Exchange on December 31, 2015 and December 31, 2014.
(2) Refer to the “Non-GAAP measurements”.

As at December 31, 2015, net debt was $220.6 million, resulting in a net debt to annualized current quarter funds from operations of 1.7x. NuVista’s long term strategy is to maintain a net debt to annualized current quarter funds from operations ratio of less than 1.5x. However, in periods of volatile and lower commodity prices, NuVista is willing to work to target a net debt to annualized current quarter funds from operations of around 2x. The actual ratio may fluctuate on a quarterly basis above or below target due to a number of factors including facility outages, commodity prices and the timing of acquisitions and dispositions. At December 31, 2015, NuVista had an adjusted working capital deficit of $23.9 million. Adjusted working capital is current assets less current liabilities excluding the current portion of the fair value of the financial derivative assets of $25.8 million. The Company believes it is appropriate to exclude these amounts when assessing financial leverage. At December 31, 2015, NuVista had drawn $196.7 million on its credit facility leaving $103.3 million of unused bank borrowing capacity based on the current committed credit facility of $300.0 million.

At December 31, 2015 NuVista had a $300.0 million (December 31, 2014 - $300.0 million) extendible revolving term credit facility available from a syndicate of Canadian chartered banks. In April 2015, NuVista completed the annual review of its borrowing base with its lenders and the lenders approved a revolving extendible credit facility with a maximum borrowing base of $300.0 million as a result of increased producing reserves offset by reduced forecast commodity prices used by the 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. The credit facility is secured by a first floating charge debenture, general assignment of book debts and NuVista’s oil and natural gas properties and equipment. The credit facility has a 364-day revolving period and is subject to an annual review by the lenders, at which time a lender can extend the revolving period or can request conversion to a one year term loan. During the revolving period, a review of the maximum borrowing amount occurs semi-annually on or before October 31 and April 30. The revolving period matures on April 29, 2016. During the term period, no principal payments would be required until a year after the revolving period matures. As such, the credit facility is classified as long-term. The credit facility does not contain any financial covenants but NuVista is subject to various non-financial covenants under its credit facility. Compliance with these covenants is monitored on a regular basis and as at December 31, 2015, NuVista was in compliance with all covenants.

During the fourth quarter, NuVista requested and received an extension of the semi-annual renewal date of the credit facility from October 31 to on or before November 30, 2015 from the banking syndicate. This request was made to allow for the inclusion of new well production data in the borrowing base redetermination. The semi annual review was completed with no changes to the amount and terms of the credit facility. The next review is scheduled for on or before April 29, 2016.

In April 2015, NuVista issued common and flow-through shares for gross proceeds of $112.0 million. Pursuant to a public offering, 11.5 million common shares were issued at $7.85 per share and 2.3 million common shares were issued on a flow-through basis in respect of Canadian Development expenses (“CDE”) at a price of $8.65 per share. In addition, NuVista also completed a private offering of 0.2 million common shares on a flow-through basis in respect of CDE expenses at a price of $8.65 per share. Under the terms of the flow-through share agreements, the Company is committed to spend $22.0 million on qualifying CDE prior to December 31, 2015. The proceeds from the offering were used to reduce bank debt and fund NuVista's capital program. NuVista has fulfilled its commitment to spend $22.0 million of CDE on qualifying expenditures.

NuVista plans to monitor its 2016 business plan and adjust its capital program in the context of commodity prices and debt levels. NuVista plans to finance its 2016 capital program with funds from operating activities, any proceeds from divestitures and available bank lines.

In September 2014, pursuant to a private placement, NuVista issued 2.4 million common shares on a flow-through basis in respect of Canadian exploration expenses (“CEE”) and CDE at a price of $13.19 and $11.99 per share respectively for gross proceeds of $29.4 million. As at December 31, 2014, NuVista had fully spent the $17.7 million qualifying CDE and as at December 31, 2015, NuVista had fully spent the $11.7 million CEE on qualifying expenditures.

As at December 31, 2015, there were 153.3 million common shares outstanding. In addition, there were 6.2 million stock options with an average exercise price of $7.14 per option, 146 thousand RSUs and 385 thousand RSAs outstanding.

Contractual obligations and commitments

NuVista enters into contract obligations as part of conducting business. The following is a summary of NuVista’s contractual obligations and commitments as at December 31, 2015:

($ thousands)	**Total**	2016	2017	2018	2019	2020	Thereafter
Transportation and processing	**558,787**	55,960	66,757	67,045	60,265	57,008	251,752
Office lease	**7,213**	3,934	3,279	—	—	—	—
Drilling rig contracts	**5,364**	4,772	592	—	—	—	—
Total commitments	**571,364**	64,666	70,628	67,045	60,265	57,008	251,752

Off “balance sheet” arrangements

NuVista has certain lease arrangements, all of which are reflected in the contractual obligations and commitments table, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease.

Annual financial information

The following table highlights selected annual financial information for the years ended December 31, 2015, 2014 and 2013:

($ thousands, except per share amounts)	2015	2014	2013
Oil and natural gas revenues	**225,685**	259,107	213,469
Net loss	**(172,925)**	(58,881)	(61,144)
Per basic and diluted share	**(1.16)**	(0.43)	(0.51)
Balance sheet information			
Total assets	**981,637**	1,024,080	905,711
Long-term debt	**196,733**	171,969	—
Shareholders' equity	**629,639**	687,647	707,795

Quarterly financial information

The following table highlights NuVista's performance for the eight quarterly reporting periods from March 31, 2014 to December 31, 2015:

($ thousands, except	**2015**				2014			
per share amounts)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Production (Boe/d)	**23,355**	21,622	21,488	23,215	23,165	18,030	14,493	17,823
Oil and natural gas revenues	**55,592**	54,664	57,502	57,927	72,050	66,426	51,734	68,897
Net loss	**(69,072)**	(74,837)	(21,357)	(7,659)	(42,478)	(208)	(11,837)	(4,358)
Net loss								
Per basic and diluted share	**(0.45)**	(0.49)	(0.14)	(0.06)	(0.31)	—	(0.09)	(0.03)

NuVista's production volumes over the past eight quarters have been increasing significantly with substantially all of the Company's capital expenditures allocated to Wapiti Montney and successful drilling and production performance in that area. Total Company production increases have been partially offset with non-core property dispositions. Over the prior eight quarters, quarterly revenue has been in a range of $51.7 million to $72.1 million with revenue primarily influenced by production volumes and commodity prices. Net losses have been in a range of a net loss of $74.8 million to net loss of $0.2 million with earnings primarily influenced by impairments, gains and losses from disposal of assets, production volumes, commodity prices and realized and unrealized gains and losses on financial derivatives.

Critical accounting estimates

Management is required to make judgements, assumptions and estimates in applying its accounting policies which have significant impact on the financial results of NuVista. The following outline the accounting policies involving the use of estimates that are critical to understanding the financial condition and results of operations of NuVista.

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

An independent reserve evaluator using all available geological and reservoir data as well as historical production data has prepared NuVista's oil and natural gas reserve estimates. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in NuVista's development plans.

(b) ***Depletion, depreciation, amortization and impairment*** – Property, plant and equipment is measured at cost less accumulated depletion, depreciation, amortization and impairment losses. The net carrying value of property, plant and equipment and estimated future development costs is depleted using the unit-of-production method based on estimated proved and probable reserves. Changes in estimated proved and probable reserves or future development costs have a direct impact in the calculation of depletion expense.

NuVista is required to use judgment when designating the nature of oil and gas activities as exploration and evaluation assets or development and production assets within property, plant and equipment. Exploration and evaluation assets and development and production assets are aggregated into CGUs based on their ability to generate largely independent cash flows. The allocation of NuVista's assets into CGUs requires significant judgment with respect to use of shared infrastructure, existence of active markets for NuVista's products and the way in which management monitors operations.

Exploration and evaluation expenditures relating to activities to explore and evaluate oil and natural gas properties are initially capitalized and include costs associated with the acquisition of licenses, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, and costs associated with retiring the assets. Exploration and evaluation assets are carried forward until technical feasibility and commercial viability of extracting a mineral resource is determined. Technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when proved and/or probable reserves are determined to exist. E&E assets are tested for impairment when facts and circumstances suggest that the carrying amount of E&E assets may exceed their recoverable amount, by comparing the relevant costs to the fair value of CGUs, aggregated at the segment level. The determination of the fair value of CGUs requires the use of assumptions and estimates including quantities of recoverable reserves, production quantities, future commodity prices and development and operating costs. Changes in any of these assumptions, such as a downward revision in reserves, decrease in commodity prices or increase in costs, could impact the fair value.

NuVista assesses property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. If any such indication of impairment exists, NuVista performs an impairment test related to the specific CGU. The determination of fair value of CGUs requires the use of assumptions and estimates including quantities of recoverable reserves, production quantities, future commodity prices and development and operating costs. Changes in any of these assumptions, such as a downward revision in reserves, decrease in commodity prices or increase in costs, could impact the fair value.

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

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

Update on regulatory matters

Environmental

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

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

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

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

Further information regarding environmental and climate change regulations, current provincial royalty and incentive programs are contained in our Annual Information Form for the year ended December 31, 2015, to be filed on SEDAR on or before March 30, 2016, under the Industry Conditions section.

Update on financial reporting matters

Future accounting changes

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which replaces IAS 18, "Revenue" and IAS 11, "Construction Contracts". The standard is now effective January 1, 2018 and is required to be adopted retrospectively or using a modified transition approach. The Company will be required to adopt this standard and is currently evaluating the impact this standard may have on the financial statements.

In July 2014, the IASB issued IFRS 9, "Financial Instruments" to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial asset and liabilities with a single model that has only two classification categories: amortized cost and fair value. As of January 1, 2018, the Company will be required to adopt the standard. The Company is evaluating the impact this standard may have on the financial statements.

In October 2015, the IASB voted on the effective date of IFRS 16 "Leases" which replaces IAS 17 "Leases". The IASB is expected to issue the standard. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying for IFRS 15 "Revenue from Contracts with Customers". IFRS 16 will be applied by NuVista on January 1, 2019 and the Company is currently evaluating the impact of the standard may have on the financial statements.

Disclosure controls and internal controls over financial reporting

NuVista's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in National Instrument 52-109. NuVista's CEO and CFO have designed disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed by NuVista in its filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and is accumulated and communicated to NuVista's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. The CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the annual and interim filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to NuVista, is made known to them by others within the Company.

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

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of NuVista;

(b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with GAAP, and that receipts and expenditures of NuVista are being made only in accordance with authorizations of management and directors of NuVista; and

(c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of NuVista's assets that could have a material effect on the annual financial statements.

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated Internal Control-Integrated Framework ("2013 Framework") replacing the Internal Control-Integrated Framework (1992). NuVista adopted the 2013 Framework for the year ended December 31, 2015. During the year ended December 31, 2015, there have been no changes to NuVista's internal controls over financial reporting that have materially or are reasonably likely to materially affect the internal controls over financial reporting; the CEO and CFO have concluded that the internal controls over financial reporting are effective.

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

Assessment of business risks

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

- Operational risk associated with the production of oil and natural gas;
- Reserves risk with respect to the quantity and quality of recoverable reserves;

- Commodity risk as crude oil and natural gas prices and differentials fluctuate due to market forces;
- Financial risk such as volatility of the Cdn/US dollar exchange rate, interest rates and debt service obligations;
- Risk associated with the re-negotiation of NuVista's credit facility and the continued participation of NuVista's lenders;
- Market risk relating to the availability of transportation systems to move the product to market;
- Environmental and safety risk associated with well operations and production facilities;
- Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices, fracturing regulations and environmental protection relating to the oil and natural gas industry; and
- Labour risks related to availability, productivity and retention of qualified personnel.

NuVista seeks to mitigate these risks by:

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

Information regarding risk factors associated with the business of NuVista and how NuVista seeks to mitigate these risks will be contained in our Annual Information Form under the Risk Factors Section for the year ended December 31, 2015.

OUTLOOK

Given weak and volatile commodity prices, NuVista continues to monitor funds from operations closely to ensure the balance sheet remains the first priority. Our capital programs continue to benefit from improvements in drilling and completions efficiency and service industry cost reductions, and spend levels can be adjusted quickly contingent upon the commodity pricing outlook. NuVista plans to continue drilling with two rigs until spring breakup and then reduce to one rig in operation for the second half of 2016. Pending weather, there are approximately 8 to 11 additional wells expected to come on production prior to spring breakup, with as many as eight of them in the first quarter. As a result of the above, we are reducing our projected 2016 capital spending by $25 million to the range of $115 - $135 million. This includes a reduction of two wells from our originally planned activity. This has the effect of pinning spending at or below projected quarterly funds from operations levels for the second quarter of 2016 and onwards. Our production guidance for 2016 is 24,500 - 25,500 Boe/d, which represents an increase of 11% compared to 2015 average production. Production for the first quarter of 2016 is expected to be approximately 24,500 - 25,000 Boe/d. Funds from operations for the year of 2016 are expected to be within the range of approximately $100 - $110 million based on commodity pricing of $US 40/Bbl WTI and $2.00/Mcf AECO gas. The Company's spending plans will continue to be re-evaluated and adjusted if necessary during the remainder of 2016.

Given top quality assets and every team member focused upon relentless improvement, NuVista will continue to optimize results in the current commodity price environment. We would like to thank our staff, contractors, and suppliers for their continued dedication and delivery, and we thank our board of directors and our shareholders for their continued guidance and support.