

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") should be read in conjunction with Novus Energy Inc.'s (formerly Regal Energy Ltd., and referred to as "Novus" or the "Company") audited financial statements as at and for the fiscal years ended December 31, 2009 and September 30, 2008. The accompanying financial statements of Novus have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The financial data presented herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to Novus, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com and Novus's website (www.novusenergy.ca).

The Company changed its fiscal year end from September 30 to December 31 effective October 1, 2008. As a result, the Company's current fiscal year is the fifteen month period ending December 31, 2009. Going forward, the new calendar fiscal year will allow the Company to report its results on a basis consistent with its peers in the oil and natural gas business.

On August 5, 2009, the Company consolidated its common shares on the basis of one new common share for every ten common shares outstanding. All share and per share, warrant and per warrant and option and per option amounts prior to August 5, 2009 have been retroactively adjusted to reflect the share consolidation.

This MD&A is current as at April 22, 2010.

NON-GAAP FINANCIAL MEASUREMENTS

Included in the MD&A are references to certain financial measures commonly used in the oil and gas industry, such as funds flow from (used in) operations and operating netbacks. These measures have no standardized meanings, are not defined by Canadian GAAP, and accordingly are referred to as non-GAAP measures. These supplemental measures are used by management to assess operating results between periods and between peer companies as they provide an indication of the results generated by the Company's principal business activities before the consideration of how these activities are financed or how the results are taxed.

Novus determines funds flow from (used in) operations as cash provided (used in) by operating activities prior to changes in non-cash working capital items and asset retirement obligations. A reconciliation of cash provided by (used in) operating activities to funds flow from (used in) operations is presented below:

	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Cash provided by (used in) operating activities	\$ (576,060)	\$ 372,175	\$ (3,550,241)	\$ 713,515
Changes in non-cash working capital items	(296,162)	(853,504)	(282,712)	(762,460)
Asset retirement expenditures	43,097	5,161	308,099	5,161
Funds flow from (used in) operations	\$ (829,125)	\$ (476,168)	\$ (3,524,854)	\$ (43,784)

Operating netbacks are calculated by deducting royalty, transportation and operating expenses from production revenue. Novus' reported amounts may not be comparable to similarly titled measures reported by other companies. These terms should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined by Canadian GAAP as an indicator of the Company's performance or liquidity.

OTHER MEASUREMENTS

The reporting and measurement currency of this MD&A is the Canadian dollar.

Reported production represents Novus' ownership share of sales before the deduction of royalties. Where amounts are expressed on a barrel of oil equivalent ("boe") basis, natural gas has been converted at a ratio of six thousand cubic feet to one boe. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation. References to natural gas liquids ("liquids") include condensate, propane, butane and ethane, and one barrel of liquids is considered to be equivalent to one boe.

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

Certain disclosures set forth in this MD&A constitute forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believes", "budget", "continue", "could", "estimate", "forecast", "intends", "may", "plan", "predicts", "projects", "should", "will" and other similar expressions. All estimates and statements that describe the Company's future, goals, or objectives, including management's assessment of future plans and operations, may constitute forward-looking information under securities laws. Forward-looking statements involve known and unknown risks and uncertainties which include, but are not limited to: exploration, development and production risks; assessments of acquisitions; reserve measurements; availability of drilling equipment; access restrictions; permits and licenses; aboriginal claims; title defects; commodity prices; commodity markets, transportation and marketing of crude oil, liquids and natural gas; reliance on operators and key personnel; competition; corporate matters; funding requirements; access to credit and capital markets; market volatility; cost inflation; foreign exchanges rates; general economic and industry conditions; environmental risks; Kyoto protocol; and government regulation and taxation.

Forward-looking statements relate to future events and/or performance and although considered reasonable by Novus at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. Novus does not undertake any obligation to publicly update forward-looking information except as required by applicable securities law.

THE COMPANY

The principal and head office of the Company is located at Suite 1200, 520 - 5th Avenue S.W., Calgary, Alberta T2P 3R7. The registered office of the Company is located at 3500, 855 - 2nd Street S.W., Calgary, Alberta T2P 4J8.

The Company was incorporated pursuant to the *Canada Business Corporations Act* (Canada) on August 7, 1998 as 3519309 Canada Incorporated. On September 4, 1998, the Company changed its name to SiberCore Technologies Incorporated ("SiberCore"). On September 28, 2002, SiberCore amalgamated with 3548228 Canada Inc., 3548236 Canada Inc., and 3548244 Canada Inc., and the amalgamated entity continued under the name SiberCore Technologies Incorporated. SiberCore was at that time a semiconductor company developing high value-added standard chips for intelligent hardware based switching and routing platforms.

The shareholders of SiberCore approved a change of business direction on December 17, 2004 that resulted in: (i) the distribution of cash and technology assets to shareholders as a return of capital; (ii) the consolidation of the common shares of SiberCore on the basis of 1 for 30,000; (iii) conversion of the preferred shares of the Company on the basis of 0.012 common shares for each preferred share; and (iv) a change in the name of the Company from SiberCore Technologies Incorporated to Azeri Capital Inc. ("Azeri").

On December 31, 2005, Azeri acquired, by way of a Plan of Arrangement, all of the issued and outstanding shares of Regal Energy Corp., a public company listed on the TSX Venture Exchange, and changed the

Company's name to Regal Energy Ltd. ("Regal"). Pursuant to the Plan of Arrangement, Regal reorganized its share capital whereby the issued and issuable shares were split on a 7.37 for one basis. Shareholders of Regal Energy Corp. received one share of Regal for each five shares of Regal Energy Corp. previously held. Regal was then continued under the *Business Corporations Act* (Alberta).

On July 10, 2008, Regal acquired all of the issued and outstanding common shares of G2 Resources Inc. ("G2") pursuant to a plan of arrangement involving Regal, 1389787 Alberta Ltd. and G2. The companies were amalgamated on October 1, 2008 and the amalgamated entity continued under the name Regal Energy Ltd.

The Company changed its fiscal year end from September 30 to December 31 effective October 1, 2008. As a result, the Company's current fiscal year end is the fifteen month period ending December 31, 2009. Going forward, the new calendar fiscal year allows the Company to report its results on a basis consistent with its peers in the oil and natural gas business.

On August 5, 2009, Regal changed its name to Novus Energy Inc., and consolidated its common shares on the basis of one common share for every ten common shares outstanding.

On December, 11, 2009, Novus acquired all of the issued and outstanding common shares of Ammonite Energy Ltd. ("Ammonite") pursuant to a plan of arrangement. The companies were amalgamated on December 11, 2009 and the amalgamated entity continued under the name Novus Energy Inc.

Novus' common shares are listed and posted for trading on the TSX Venture Exchange under the symbol NVS.

RECENT CORPORATE EVENTS

On January 18, 2010, the Company entered into two farm-in agreements whereby the Company issued 325,000 common shares for the right to farm-in on certain lands in the Dodsland area of Saskatchewan. In order to earn a 100% interest in the lands, subject to a royalty reserved to the farmor, the Company must drill three test wells on the lands on or before July 30, 2010.

On March 1, 2010, the Company, through a newly formed wholly-owned subsidiary, Novus Energy (Acquisition) Inc., acquired all the issued and outstanding common shares of a private company in exchange for 18,666,211 common shares of the Company at a deemed price of \$0.91 per share. The private company had approximately 214 boe/d of production, 25.5 net sections of undeveloped lands and positive working capital of approximately \$8,000,000. The companies were amalgamated on March 1, 2010 and continue to operate as Novus Energy (Acquisition) Inc.

On March 4, 2010 the Company, through Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of a private company at a cost of \$925,000, comprised of a cash payment of \$800,000 and the assumption of approximately \$125,000 of debt. The acquisition provides the Company with two sections of prospective land in the Dodsland area of Saskatchewan. The private company remains a subsidiary of Novus Energy (Acquisition) Inc.

On March 31, 2010, the Company purchased certain interests in the Dimsdale/Wembley area of Alberta at a cost of \$950,000.

On April 7, 2010, the Company, through Novus Energy (Acquisition) Inc, acquired all of the issued and outstanding common shares of a private company at a cost of \$1,250,000, which was paid in cash. The acquisition provides the Company with 2.3 sections of prospective land in the Dodsland area of Saskatchewan. The private company remains a subsidiary of Novus Energy (Acquisition) Inc.

On April 7, 2010, the Company entered into a farm-in agreement whereby the Company paid \$300,000 for the right to farm-in on 0.5 sections of land in the Dodsland area of Saskatchewan. In order to earn a 100%

interest in the lands, subject to a royalty reserved to the farmor, the Company must drill a test well on the lands on or before July 30, 2010.

On April 12, 2010, the Company acquired 3.4 sections of undeveloped crown land in the Dodsland area of Saskatchewan at a cost of \$2,250,000.

RESULTS OF OPERATIONS

Production

Novus' average daily production for the quarter ended December 31, 2009 was 327 boe/d, down slightly from the 345 boe/d recorded in the previous quarter and the 365 boe/d recorded in the fourth fiscal quarter of 2008. For the fifteen months ended December 31, 2009, the Company's average daily production was 324 boe/d up from 242 boe/d recorded in the twelve months of the 2008 fiscal year.

The figures for the twelve months ended September 30, 2008 only include production from G2 since July 10, 2008, the date G2 was acquired. The 2009 figures only include production from the Ammonite properties since December 11, 2009, the date Ammonite was acquired. The recent quarterly figures were impacted by oil production being shut-in at Cardiff and Wembley (which resumed mid-January) as well as severe cold weather curtailing gas production during December.

Average production	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Natural gas (mcf/d)	1,405	1,616	1,447	1,138
Oil & liquids (bbls/d)	92	96	83	53
Oil equivalent (boe/d)	327	365	324	242

Midway through the first quarter of 2010, Novus placed six wells (3 net) at Dodsland, Saskatchewan on production with an initial average rate of 60 boe/d per well (30 net). This, combined with the recent property and corporate acquisitions, brings Novus' estimated production as of the date of this MD&A to approximately 825 boe/d, with a further 75 boe/d currently shut-in.

Revenue and pricing

Gross production revenue for the three months ended December 31, 2009 was \$1,155,732 versus \$2,001,143 in the three months ended September 30, 2008. For the fifteen month period ended December 31, 2009, gross production revenue was \$4,962,382 versus \$4,924,134 a year ago. Both the annual and quarterly numbers were severely impacted by the steep declines in commodity prices, although the annual figures were offset by the inclusion of a fifth quarter. The Company did not enter into any commodity derivative contracts locking in petroleum or natural gas prices during the fiscal years ended December 31, 2009 or September 30, 2008, nor has it entered into any such contracts as of the date of this MD&A.

Sales revenue	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Natural gas	\$ 649,797	\$ 1,131,828	\$ 3,059,831	\$ 3,202,587
Oil & Liquids	505,935	869,315	1,902,551	1,721,547
Total	\$ 1,155,732	\$ 2,001,143	\$ 4,962,382	\$ 4,924,134

Sales price per unit	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Natural gas (\$/mcf)	\$ 5.03	\$ 7.61	\$ 4.63	\$ 7.71
Oil & Liquids (\$/bbl)	59.52	98.41	49.99	89.31
Blended (\$/boe)	\$ 38.47	\$ 59.53	\$ 33.47	\$ 55.64

Royalties

Royalties, which include crown, freehold and overriding royalties paid on oil, liquids and natural gas production, amounted to \$196,316 during the final quarter of 2009 compared to \$477,503 during the final fiscal quarter of 2008. For the fiscal year ended December 31, 2009, royalties were \$836,965 compared to \$1,017,016 for the fiscal year ended September 30, 2008.

As a percentage of production, royalties decreased to 17.0% in the most recent quarter from 23.9% a year ago. Royalties were 16.9% of production for the fifteen months ended December 31 2009 versus 20.7% in the comparative period. The decrease in royalties in 2009 is primarily the result of additional gas cost allowance and custom processing credits recovered through the Company's annual filings.

Royalties	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Crown	\$ 60,934	\$ 290,588	\$ 329,640	\$ 566,151
Freehold and GOR	135,382	186,915	507,325	450,865
Total	\$ 196,316	\$ 477,503	\$ 836,965	\$ 1,017,016
Total (\$/boe)	\$ 6.54	\$ 14.20	\$ 5.65	\$ 11.49

In March, 2010, the Alberta government announced the New Royalty Framework, originally announced in October, 2007, was being modified. The details of the program have yet to be finalized, but the government has announced that Alberta crown royalties will be capped at 40% for oil and 36% for natural gas. In addition, a 5% royalty will apply to the first 50,000 boe of production or the first year of production on new oil and gas wells. Final details of the modifications are expected to be released in May, 2010.

While a portion of the Company's projected growth will come from its Alberta assets, the majority is expected to come from its Saskatchewan assets, particularly the greater Dodsland area. Based on the anticipated production split from crown and freehold lands, the Company is forecasting an overall royalty rate of 15% in 2010.

Operating costs

Total operating costs for the quarter ended December 31, 2009 amounted to \$622,426, or \$20.72/boe, compared to \$619,955, or \$18.44/boe, during the quarter ended September 30, 2008. For the fiscal year ended December 31, 2009 operating costs were \$2,829,911, or \$19.09/boe, compared to \$1,642,480, or \$18.56/boe, a year ago. While some volumes were temporarily shut-in during the last quarter of 2009, fixed operating charges were still occurring, accounting for the higher unit costs.

Operating costs	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Operating costs	\$ 622,426	\$ 619,955	\$ 2,829,911	\$ 1,642,480
\$/boe	\$ 20.72	\$ 18.44	\$ 19.09	\$ 18.56

Transportation costs

Total transportation costs for the quarter ended December 31, 2009 amounted to \$48,229, or \$1.61/boe, compared to \$42,940, or \$1.28/boe, during the quarter ended September 30, 2008. For the twelve month period ended December 31, 2009, transportation costs were \$192,570, or \$1.30/boe, compared to \$82,360 or \$0.93/boe, a year ago. The properties acquired via the Plan of Arrangement with G2 in July 2008 were associated with higher transportation costs in the latter part of 2008 and into 2009, while a change in the product ratio to higher cost oil from lower cost gas production increased the most recent quarterly boe numbers.

	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Transportation costs	\$ 48,229	\$ 42,940	\$ 192,570	\$ 82,360
\$/boe	\$ 1.61	\$ 1.28	\$ 1.30	\$ 0.93

Operating netbacks

The following table summarizes the Company's operating netbacks. Operating netbacks are non-GAAP measures and are used by Novus to measure the profitability of crude oil and natural gas sales, subsequent to the deduction of royalty, operating and transportation costs. This measure is not necessarily comparable to operating netbacks as reported by other entities.

Netback per boe	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Revenue	\$ 38.47	\$ 59.53	\$ 33.47	\$ 55.64
Royalties	(6.54)	(14.20)	(5.65)	(11.49)
Operating	(20.72)	(18.44)	(19.09)	(18.56)
Transportation	(1.61)	(1.28)	(1.30)	(0.93)
Operating netback	\$ 9.60	\$ 25.61	\$ 7.43	\$ 24.66

The operating netback for the three months ended December 31, 2009 was \$9.60/boe compared to \$25.61/boe for the last fiscal quarter in 2008. For the fiscal year ending December 31, 2009, Novus' operating netback was \$7.43/boe versus \$24.66/boe in the comparative fiscal period. The largest reason for the declines in 2009 was the reduction in overall commodity prices.

General and administrative expenses

Total general and administrative expenses during the final quarter of 2009 amounted to \$1,113,901 compared to \$1,287,119 a year ago. For the fiscal year ended December 31, 2009, general and administrative expenditures were \$4,520,860 versus \$2,006,507 for the fiscal year ended September 30, 2008. The current year-to-date figures include \$636,892 in reorganization costs leading up to and including the March 31, 2009 change in management, \$249,773 in bad debts and an extra quarter in recurring costs when compared to the fiscal year ended September 30, 2008. The following is a breakdown of the costs included in general and administrative expenditures:

	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Recurring expenditures	\$ 1,076,404	\$ 710,463	\$ 3,568,222	\$ 1,437,531
Bad debts	12,178	121,304	249,773	151,257
Reorganization costs	-	496,000	636,892	496,000
Merger and acquisition activity	58,089	-	175,872	-
Recoveries	(32,770)	(40,648)	(109,899)	(78,281)
	\$ 1,113,901	\$ 1,287,119	\$ 4,520,860	\$ 2,006,507

Going forward, the Company anticipates general and administrative expenditures to increase as additional staffing requirements are needed to support future growth. Furthermore, the Company has assumed additional and more expensive commitments regarding office space as a result of corporate acquisitions. The Company believes that while general and administrative expenditures will grow on an absolute basis, they should decrease on a per boe basis as new production is added and comes on stream.

Interest expense

Interest expense for the three months ended December 31, 2009 was \$3,915 compared to \$49,794 for the three months ended September 30, 2008. For the fiscal year ended December 31, 2009, interest expense was \$90,227, versus \$219,555 in the comparative period. The reduction in interest expense is the result of

Company using a portion of the proceeds of the March 31, 2009 private placement financing to pay off its bank debt.

Stock-based compensation

The Company accounts for stock-based compensation using the fair-value method. Under this method, compensation expense is recorded over the vesting terms of the options. During the final quarter of 2009, \$249,853 of stock-based compensation expense was recognized. For the fifteen months of the fiscal year, the Company recorded \$465,410 in stock-based compensation expense. These figures compare to \$569,326 and \$596,848 for the three and twelve month periods ending September 30, 2008, respectively. No compensation expense has been recorded for the performance warrants as management does not expect the performance warrants to vest based on current NAV per share projections.

Depletion and depreciation

Total depletion and depreciation expense for the quarter ended December 31, 2009 amounted to \$1,119,532 compared to \$999,900 for the quarter ended September 30, 2008. For the fiscal periods ended December 31, 2009 and September 30, 2008, the figures were \$11,832,023 and \$2,307,690 respectively.

As at March 31, 2009, the Company performed a ceiling test calculation. Stage one of the test indicated its undiscounted future net revenue from proved reserves plus the carrying value of unproved properties were less than the carrying value of its oil and gas assets. Consequently, the Company performed stage two of the ceiling test calculation which indicated its future net revenue from proved and probable reserves, discounted at 5%, plus the carrying value of unproved properties were less than the carrying value of its oil and gas assets, which resulted in an impairment provision of \$7,000,000, with such amount included in the depletion and depreciation expense.

Income taxes

The \$16,703 charge for the fifteen month period ended December 31, 2009 is the result of the Saskatchewan Resource Surcharge (“SRS”) on the Company’s Saskatchewan production revenue, including adjustments based on predecessor company filings.

The following is a summary of the estimated tax pools of the Company as at December 31, 2009:

Classification	Dec 31, 2009
Canadian oil and gas property expenditures	\$ 29,624,000
Non-capital loss carry-forwards	22,461,000
Scientific research and development	18,899,000
Capital cost allowance	17,579,000
Canadian development expenditures	15,875,000
Canadian exploration expenditures	15,654,000
Share issue costs	4,086,000
Other	260,000
	\$ 124,438,000

The non-capital loss carry-forwards available to reduce future year’s income for tax purposes expire as follows:

Year	Amount
2011	\$ 709,000
2013	4,672,000
2014	1,898,000
2022 - 2029	15,182,000
Total non-capital loss carry-forwards	\$ 22,461,000

Net income (loss), funds flow and cash flow from (used in) operations

	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Net loss	\$ (2,232,837)	\$ (2,080,194)	\$ (15,956,453)	\$ (3,085,655)
Per share - basic & diluted	(0.04)	(0.15)	(0.45)	(0.43)
Funds flow from (used in) operations ⁽¹⁾	(829,125)	(476,168)	(3,524,854)	(43,784)
Per share - basic & diluted	(0.01)	(0.03)	(0.10)	(0.01)
Cash flow from (used in) operations	(576,060)	372,175	(3,550,241)	713,515
Per share - basic & diluted	(0.01)	0.03	(0.10)	0.10
Weighted average shares outstanding	60,687,321	13,897,275	35,374,283	7,103,303

(1) Funds flow from (used in) operations has been presented for information purposes only and should not be considered an alternative to, or more meaningful than, cash flow from (used in) operating activities as determined in accordance with GAAP. The Company considers funds flow from (used in) operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to repay debt and to fund future growth through capital investment. The determination of Novus' funds flow from (used in) operations may not be comparable to the same reported by other companies. The reconciliation of net income (loss) and funds flow from (used in) operations can be found in the "Non-GAAP financial measurements" section at the front of this MD&A. Funds flow from (used in) operations per share was calculated using the same weighted average shares outstanding used in calculating net income (loss) per share.

Capital expenditures

During the final quarter of 2009, the Company recorded \$33,330,881 of net capital expenditures compared to \$15,062,397 during the fourth fiscal quarter of 2008. For the fifteen month period ended December 31, 2009, capital expenditures were \$35,218,935 versus \$16,206,304 a year ago. In the last quarter of 2009, the Company closed three separate property acquisitions and the acquisition of Ammonite. It also participated in the drilling of seven (4 net) horizontal wells, six (3 net) of them at Dodsland, Saskatchewan. A breakdown of these expenditures is outlined below:

	Three months ended		Fiscal years ended	
	Dec 31, 2009	Sep 30, 2008	Dec 31, 2009	Sep 30, 2008
Land acquisition / retention	\$ 6,268	\$ 321,509	\$ 202,173	\$ 327,990
Geological, geophysical and seismic	540,020	147,377	922,553	159,727
Drilling and completions	2,521,205	240,404	3,180,168	1,132,276
Alberta drilling credits	(250,000)	-	(250,000)	-
Equipping and tie-ins	600,116	128,004	1,244,312	1,101,308
Furniture and fixtures	43,238	(2,283)	72,091	(983)
	3,460,847	\$ 835,011	5,371,297	\$ 2,720,318
Asset acquisitions	7,371,842	223,800	7,349,446	-
Asset dispositions	-	-	-	(517,600)
Corporate acquisitions	22,498,192	14,003,586	22,498,192	14,003,586
	\$ 33,330,881	\$ 15,062,397	\$ 35,218,935	\$ 16,206,304

Included in the above table are the following non-cash transactions:

- July 10, 2008 - 7,276,261 common shares with an ascribed value of \$13,606,610 issued pursuant to the business combination with G2;
- December 11, 2009 - 32,278,884 common shares with an ascribed value of \$22,272,430 issued pursuant to the business combination with Ammonite.
- December 30, 2009 - 850,000 common shares with an ascribed value of \$799,000 issued pursuant to a property acquisition at Flaxcombe, Saskatchewan;

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

The Company considers its capital structure to include share capital, working capital, and bank debt. The Company manages its capital structure in order to meet its financial obligations and sustain the future development of the Company. The Company's Officers are responsible for managing the Company's capital and do so through quarterly meetings and regular reviews of financial information including budgets and forecasts. The Company's Directors are responsible for overseeing this process. Methods used by the Company to manage its capital include the issuance of new share capital and warrants which have historically been accomplished through private placements. The Company continually monitors business conditions including: changes in economic conditions; the risk of its drilling programs; forecasted commodity prices; and potential corporate or asset acquisitions. There were no changes in the Company's approach to capital management during the year since the reorganization as described in note 1 to the Company's December 31, 2009 financial statements.

Until such time as the Company can sustain positive funds flow from operations, the Company monitors its capital structure to ensure that it maintains a positive working capital position free of bank debt. As at December 31, 2009, the Company had positive working capital of \$19,422,676 with no bank debt outstanding.

The Company's share capital is not subject to any external restrictions, however its credit facility is subject to periodic reviews. The credit facility also contains certain covenants such that the Company cannot, without prior approval of the bank, hedge or contract petroleum or natural gas volumes, on a fixed price basis, exceeding 50% of production volumes, nor can it monetize or settle any fixed price financial hedge or contract. The credit facility also contains a financial covenant that requires the Company to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, bank debt and the fair value of any commodity contracts are excluded and the unused portion of the credit facility may be added to current assets. As at December 31, 2009, this ratio was 5.0:1.

Equity instruments

On March 31, 2009, the Company completed a private placement financing of 27,750,000 units at \$0.50 per unit for gross proceeds of \$13,875,000 (net \$12,658,483). Under the terms of the financing, each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to acquire an additional common share at a price of \$0.75 per common share. The term of the warrant is 36 months, provided however, that if at any time from four months after closing, the daily volume-weighted average trading price of the common shares on the TSX-V exceeds \$1.20 for 25 consecutive trading days and the Company gives written notice to the warrant holders within ten trading days of the end of such period, the expiry date will be reduced to 30 days from the giving of notice.

On November 24, 2009, the Company completed a private placement financing of 46,200,000 subscription receipts at a price of \$0.65 per subscription receipt for gross aggregate proceeds of \$30,030,000 (\$27,977,667 net). Each subscription receipt entitled the holder to receive one common share in the capital of the Company, provided the Company completed the acquisition of all of the outstanding common shares of Ammonite and obtained a final receipt for a prospectus on or before December 31, 2009. The acquisition of Ammonite was completed on December 11, 2009 and the prospectus receipt was obtained on December 21, 2009. As a result, 46,200,000 common shares were issued on December 22, 2009 pursuant to the deemed exercise of the subscription receipts.

On December 11, 2009, the Company issued 32,278,884 common shares pursuant to the plan of arrangement whereby the Company acquired all the issued and outstanding shares of Ammonite Energy Ltd.

As at December 31, 2009, the Company had the following equity instruments outstanding:

Common shares outstanding	122,103,852
Issuable upon the exercise of outstanding share purchase warrants	30,070,815
Issuable upon the exercise of outstanding stock options	3,415,000
Issuable upon the exercise of outstanding performance warrants	4,200,000
Total equity instruments outstanding	159,789,667

The following table summarizes the outstanding share purchase warrants by expiry date

Date of Issue	Number of Warrants	Exercise Price	Date of Expiry
Jul 10, 2008	2,230,100	\$ 2.60	Jul 10, 2010
Mar 31, 2009	27,730,000	\$ 0.75	Mar 31, 2012
Dec 11, 2009	54,450	\$ 1.03	Jan 2, 2010
Dec 11, 2009	56,265	\$ 1.03	Mar 20, 2010
	30,070,815		

The following table summarizes the outstanding stock options by expiry date:

Date of Grant	Number of Options	Exercise Price	Date of Expiry
Feb 12, 2007	30,000	\$ 3.00	Feb 12, 2012
Jul 16, 2008	385,000	\$ 2.00	Jul 16, 2013
Sep 4, 2009	3,000,000	\$ 0.60	Sep 4, 2014
	3,415,000	\$ 0.78	

The Company's 4,200,000 performance warrants were granted on September 4, 2009 for a term of three years. Each performance warrant is exercisable into one common share at a price of \$0.56 per performance warrant upon the Company achieving certain targets in growth in net assets value per fully diluted share outstanding ("NAV per share"). With reference to the initial NAV per share calculated as \$1.10, 1/3 of the performance warrants shall vest upon an increase in NAV per share of 25%, 2/3 of the performance warrants shall vest upon an increase in NAV per share of 33 1/3%, and all of the performance warrants shall vest upon an increase in NAV per share of 50%. As of December 31, 2009, none of the performance warrants have vested.

Subsequent to year-end, Novus has issued 80,000 common shares on the exercise of share purchase warrants; 325,000 common shares pursuant to a farmin agreement; and 18,666,211 common shares pursuant to the acquisition of a private company. As a result, as of the date of this MD&A Novus has 141,175,063 common shares outstanding. A further 29,880,100 common shares are reserved for issuance pursuant to the exercise of outstanding shares purchase warrants; 7,415,000 common shares are reserved for issuance pursuant to the exercise of outstanding stock options; and 4,200,000 common shares are reserved for issuance pursuant to the exercise of outstanding performance warrants.

Working capital and bank debt

At December 31, 2009, the Company had positive working capital of \$19,422,676 compared to a deficiency of \$3,099,567 at September 30, 2008. Components of the working capital (deficiency) are contained in the following table:

	Dec 31, 2009	Sep 30, 2008
Cash and cash equivalents	\$ 22,142,578	\$ -
Accounts receivable	2,512,175	2,298,600
Deposits and prepaid expenses	442,120	484,460
Accounts payable and accrued liabilities	(5,674,197)	(3,288,808)
Bank debt	-	(2,593,819)
Total working capital (deficiency)	\$ 19,422,676	\$ (3,099,567)

The significant improvement in the Company's financial position was achieved through the March 31, 2009 and November 24, 2009 private placements as previously described.

As at December 31, 2009, the Company had no bank debt outstanding. The Company has available a \$3,500,000 revolving operating demand facility which expires on May 1, 2010. The credit facility bears interest at the bank prime rate plus 1½% and is secured by a general assignment of book debts and a \$15,000,000 debenture with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges on the Company's major producing petroleum properties. The credit facility is subject to a financial covenant that requires the Company to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, bank debt and the fair value of any commodity contracts are excluded and the unused portion of the credit facility may be added to current assets. As at December 31, 2009, this ratio was 5.0:1.

The credit facility is subject to periodic review by the bank, with the next review scheduled on or before May 1, 2010.

COMMITMENTS AND CONTINGENCIES

As at December 31, 2009, the Company had commitments as follows:

	2010	2011	Thereafter
Office Lease	\$ 507,257	\$ 257,894	\$ -

Subsequent to December 31, 2009, the Company entered into and acquired new agreements for office space with the following additional commitments:

	2010	2011	Thereafter
Office Lease	\$ 172,956	\$ 163,378	\$ -

The Canada Revenue Agency ("CRA") has conducted an audit of transfer pricing on international transactions between SiberCore Technologies Incorporated and its United States subsidiary, SiberCore America Inc. for the years 2000, 2001 and 2002. SiberCore Technologies Incorporated was the predecessor company of Azeri Capital Inc. and ultimately Novus Energy Inc. The Company has received a proposed settlement letter from CRA that would result in a reduction of tax pools of approximately \$1,500,000. CRA has also proposed to charge a cash penalty of approximately \$150,000. The Company has responded to the proposed settlement letter and provided further information supporting management's view that CRA's position has no merit and intends to object to any notice of assessment that may be received. The outcome of this audit is uncertain at this time and as such, no provisions have been made in these financial statements.

RELATED PARTY TRANSACTIONS

Pursuant to the March 31, 2009 private placement financing, the Company paid a fee of 1% of the gross proceeds of the financing, or \$138,750, to Nova Bancorp Securities Ltd., a corporation related at that time to two directors of Novus, for the provision of certain advisory services in connection with the private placement. The Company also paid a finder's fee of \$214,419 to a corporation related to an Insider of the Company, such Insider status due to their control of more than 10% of the Company's issued and outstanding shares at the time of the financing.

All transactions were in the normal course of business and have been measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties.

SELECTED ANNUAL FINANCIAL INFORMATION

(000s, except per share amounts)	Fiscal year ended Dec 31, 2009	Fiscal year ended Sep 30, 2008	Fiscal year ended Sep 30, 2007
Production revenue	\$ 4,962	\$ 4,924	\$ 2,010
Net income (loss)	(15,956)	(3,086)	(4,387)
per share - basic & diluted	(0.45)	(0.43)	(1.20)
Funds flow from (used in) operations	(3,525)	(44)	(618)
per share - basic & diluted	(0.10)	(0.01)	(0.04)
Total assets	80,636	31,176	11,716
Total long-term liabilities	2,385	951	398

SUMMARY OF QUARTERLY RESULTS

(000s, except per boe amounts)	Three months ended Dec 31, 2009	Three months ended Sep 30, 2009	Three months ended Jun 30, 2009	Three months ended Mar 31, 2009
Petroleum and natural gas sales	\$ 1,156	\$ 839	\$ 804	\$ 911
Funds flow from (used in) operations	(829)	(559)	(476)	(1,379)
Net loss	2,233	1,800	1,415	9,147
Capital expenditures, net	33,331	(40)	329	220
Average daily production (boe/d)	327	345	327	306
Average selling price (\$/boe)	38.47	26.45	29.96	33.05
Operating netback (\$/boe)	9.60	3.20	7.88	2.23
Weighted average shares outstanding	60,687	42,755	42,755	15,313

(000s, except per boe amounts)	Three months ended Dec 31, 2008	Three months ended Sep 30, 2008	Three months ended Jun 30, 2008	Three months ended Mar 31, 2008
Petroleum and natural gas sales	\$ 1,252	\$ 2,001	\$ 1,433	\$ 798
Funds flow from (used in) operations	(282)	(476)	484	10
Net loss	1,361	2,080	92	416
Capital expenditures, net	1,380	15,062	(206)	(40)
Average daily production (boe/d)	316	365	248	173
Average selling price (\$/boe)	43.04	59.53	63.44	50.73
Operating netback (\$/boe)	14.49	25.61	34.74	20.87
Weighted average shares outstanding	15,005	13,897	4,814	4,814

Petroleum and natural volumes increased in the last half of fiscal 2008, primarily due to production increases at Eight Mile, BC and volumes associated with the G2 business combination, in the third and fourth quarters respectively. Production fell in the first and second fiscal quarters of 2009 due to operational and cold weather issues at Eight Mile, Kaybob, and Garrington, and began to rise in the following two quarters as these issues became resolved. The most recent quarterly figures were impacted by oil production being shut-in at Cardiff and Wembley (which resumed mid-January) as well as severe cold weather curtailing gas production during December.

Petroleum and natural gas sales are a function of sales volumes and commodity prices, so while volumes held steady or increased over the first four quarters of fiscal 2009, declining commodity prices negatively

impacted production revenue. The turnaround in prices over the last quarter of 2009 helped boost the sale figures, in spite of the reduced volumes.

Funds flow from (used in) operations starts with production revenues and is affected by royalties, operating and transportation costs, general and administrative expenditures, interest expenses and current taxes. The increase in funds flow from operations in the three months ended June 30, 2008 was primarily the result of higher commodity prices, while the reduction in the following quarter was due severance costs associated with the G2 business combination and change of management, as well as year-end administrative costs, such as audit and engineering fees. For 2009, funds flow used in operations was impacted by severance costs associated with the change of management in March and year-end administrative costs in December.

The net loss for the quarter ended September 30, 2008 increased from prior fiscal quarters due to the change in funds flow from operations and higher depletion charges associated with the increased asset base pursuant to the G2 business combination in July of 2008. The net loss for the three months ended March 31, 2009 included higher funds flow used in operations and a \$7,000,000 ceiling test write-down.

The largest contributors to the capital expenditure figures were the business combination with G2 in July, 2008 at a cost of approximately \$14 million, and the business combination with Ammonite in December, 2009 at a cost of approximately \$22.5 million. The last quarter of 2009 also included the drilling of seven wells (4 net), primarily at Dodsland, Saskatchewan.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at December 31, 2009 consist of cash and cash equivalents, accounts receivable, deposits, investment, and accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying value due to their short-term nature, except for the investment. The investment consists of common shares in a non-publicly traded company, which was acquired as part of the business combination with Ammonite. The fair value of the investment is determined by a review of the Company's assets, capital program, and recent fund raising efforts.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2009.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 22,142,578	\$ -	\$ -	\$ 22,142,578
Investment	-	-	15,000	15,000
Total	\$ 22,142,578	\$ -	\$ 15,000	\$ 22,157,578

The nature of the Company's financial instruments and operations expose the Company to certain risks. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, and senior management employs various strategies to ensure that the exposure to risk is in compliance with the Company's business objectives and tolerance levels.

Credit Risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to accounts receivable and cash and cash equivalents.

Substantially all of the Company's accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal industry credit risks. During the fiscal year ended December 31, 2009, the Company marketed its petroleum and natural gas to primarily two oil and natural gas marketers. However, subsequent to December 31, 2009, the Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. Subsequent to December 31, 2009, all of the sales revenue receivable was collected. Receivables from

joint venture partners are typically collected within one to three months of the joint venture billing being issued, however collection is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling, and disputes amongst partners. The Company attempts to mitigate credit risk from joint venture partners by obtaining partner approval of significant capital costs prior to expenditure. While the Company does not typically obtain collateral from joint venture partners, it may cash call a partner in advance of the work being done. In addition, the Company has the ability to withhold production from partners in the event of non-payment. Should any of the Company's customers or partners be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to losses arising from accounts receivable and cash and cash equivalents is equal to their total carrying amounts on the balance sheet. During the fiscal year ended December 31, 2009, the Company recorded an allowance for doubtful accounts in the amount of \$200,000 and recorded the corresponding amount as a bad debt expense. When determining whether past due accounts are collectible, the Company factors in the past credit history of the counter parties.

As at December 31, 2009, the Company's accounts receivable were comprised of the following:

Sales revenue receivable	\$	555,349
Joint interest receivable		1,436,951
Cash call receivable		92,141
Accrued and other receivable		427,734
Total accounts receivable	\$	2,512,175

As at December 31, 2009, the Company estimates its accounts receivables to be aged as follows:

Total accounts receivable	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 2,512,175	\$ 647,441	\$ 506,002	\$ 65,130	\$ 1,293,602

The Company considers all amounts greater than 90 days as past due. These past due accounts are considered to be collectible except as provided in the allowance for doubtful accounts.

Cash and cash equivalents consist of bank balances. The Company manages the credit exposure of cash by selecting financial institutions with high credit ratings.

Liquidity risk

This is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to ensure that it has sufficient resources available to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn. At December 31, 2009, the Company's accounts payable and accrued liabilities were \$5,674,197 all of which are due for payment within normal terms of trade, which are generally between 30 and 60 days. As at December 31, 2009, the Company has cash on hand of \$22,142,578 to manage its liquidity and settlement of liabilities.

The Company's financial liabilities at December 31, 2009 are aged as follows:

Total accounts payable and accrued liabilities	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 5,674,197	\$ 4,446,248	\$ 226,239	\$ 466,272	\$ 535,438

The Company expects to satisfy its obligations under accounts payable and accrued liabilities within the next year. As well, the Company is required to meet certain financial commitments as described in the commitments and contingencies section of this MD&A.

Foreign currency exchange risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place, nor any significant working capital items denominated in foreign currencies, as at or during the fiscal year ended December 31, 2009.

Commodity price risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are not only impacted by the relationship between the Canadian and United States dollar as outlined above, but also by world economic events that dictate the levels of supply and demand. The Company had no commodity contracts locking in petroleum or natural gas prices as at or during the fiscal year ended December 31, 2009.

Interest rate risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. From time to time, the Company may attempt to mitigate this risk by utilizing short-term bankers' acceptances to lock in a portion of its bank debt at fixed rates. No interest rate swaps or financial contracts were in place as at or during the fiscal year ended December 31, 2009.

Operational risks

Novus' operational activities are focused on the Western Canadian Sedimentary Basin, a competitive environment with a number of companies exploring for hydrocarbons. Other operational risks include weather delays, mechanical or technical difficulties, and exploration risks associated with finding economically viable hydrocarbon reserves. Novus attempts to manage these risks by maintaining an inventory of certain critical equipment; conducting advance planning to manage its drilling programs in an efficient and cost effective manner; and hiring experienced technical staff and personnel to conduct its exploration programs.

Novus' field operations are also subject to health, safety and environmental risks. The Company maintains a Health, Safety and Environmental Policy and an Emergency Response Plan which are updated bi-annually or as needed to comply with current legislation. Both are designed to protect the health and safety of all concerned persons in addition to respecting any environmental regulations. Novus also maintains insurance covering property, drilling, pollution, and commercial general liability.

Financial Risks

Financial risks faced by the Company include fluctuations in commodity prices, US/Canadian foreign exchange rates, interest rates, the ability to access capital and/or debt markets, and credit risks associated with its joint venture partners and purchasers. At times, Novus may hedge a portion of its production, or lock in foreign exchange or interest rates. It also attempts to mitigate overall financial risks by maintaining a positive working capital position; having a flexible capital program; and managing its reliance on joint venture partners.

Regulatory Risks

Novus is subject to various policies and legislation governing the oil and gas industry. Although these policies are out of Novus' direct control, the Company is a member of the Small Explorers and Producers Association of Canada, which, amongst other things, represent the interests of junior oil and gas companies to the public, governments, and other sectors of the energy industry in Canada. Novus operates in a

manner that is in compliance with applicable regulations and industry standards and must react to comply with changes as they occur.

CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Adoption of new accounting policies

a) Goodwill and intangible assets

Effective October 1, 2008, the Company adopted the new standard for Goodwill and Intangible Assets, which states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. It also provides further information on the recognition of internally generated intangible assets, including research and development costs. These new standards did not impact the Company's financial statements.

b) Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 - Credit risk and the fair value of financial assets and financial liabilities. This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's financial statements.

c) Financial instrument disclosure

In June 2009, the Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board ("AcSB") amended CICA Handbook Section 3862, "Financial Instruments – Disclosures" to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. These amendments are effective for annual financial statements for fiscal years ending after September 30, 2009.

Accounting pronouncements

a) International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's AcSB adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, the AcSB confirmed the changeover from Canadian GAAP to IFRS will be required for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. In July 2009, the International Accounting Standards Board adopted certain amendments and exemptions to IFRS 1 including standards relating to the transition to IFRS for resource based companies. The amendment will permit the Company to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Company's full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

Although the Company has not yet completed the development of an IFRS changeover plan, it has begun a high level review of the major differences between Canadian GAAP and IFRS. At this time, Novus has identified the following key differences:

i) Exploration and Evaluation ("E&E") expenditures

Upon transition to IFRS, the Company will reclassify E&E expenditures that are currently included in Property and equipment on the balance sheet. E&E expenditures consist of the book value of undeveloped land and seismic data that relate to exploration

properties. E&E assets have the option to be depleted and must be assessed for impairment when indicators suggest the possibility of impairment exists. Novus has not yet determined what policy choices surrounding E&E assets it will adopt.

ii) Depletion expense

The Company has the option to base its depletion calculation on either proved reserves or proved plus probable reserves. Novus has not yet determined which reserves base it will use to calculate depletion.

iii) Impairment

Impairment tests of property and equipment must be performed for each cash generating unit, and impairments may be recovered in future periods if it is determined that the impairment has decreased or no longer exists.

iv) Asset retirement obligations

Novus' asset retirement obligations are likely to increase under IFRS as a result of the change from a credit-adjusted risk-free rate used to discount cash flows, to a risk-free rate. In addition, any change in the discount rate will affect the entire obligation, not just the current additions as it does now.

Novus anticipates completing its project scoping during the second quarter of 2010 and will then commence a more detailed assessment of individual differences, policy choices, and the impact on the Company's financial statements and business processes. As the Company has not yet finalized its accounting policy choices, it is unable to quantify the impact on the financial statements at this time.

The IFRS project is being managed by internal staff who have received training through conferences, participation in peer groups, and previous experience. Implementation of the changeover to IFRS will not only impact the Company's financial statements, it will also impact the Company's business processes, which will require additional training for staff.

b) Business combinations

In January 2009, the AcSB issued CICA Handbook Section 1582, "Business Combinations" which replaces previous guidance on business combinations. This Section applies to business combinations entered into on or after January 1, 2011 with earlier adoption permitted. This standard outlines new guidance which states that the purchase price is to be based on trading data at the closing date of the acquisition, not the announcement date, and that most acquisition costs are to be expensed as incurred. The Company has elected to adopt the standards effective January 1, 2010, in advance of the transition to IFRS and the adoption of this standard will impact the Company's financial statements for future business combinations. The Company has elected to early adopt this standard in the first quarter of 2010 as it substantially aligns with IFRS.

c) Consolidated financial statements

In January 2009, the AcSB issued CICA Handbook Section 1601, "Consolidations" and 1602, "Non-controlling Interests". Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests which would be covered in Section 1602. These standards are effective for annual and interim periods beginning on or after January 1, 2011 with earlier adoption permitted. The Company has elected to adopt the standards effective January 1, 2010 and the adoption of these standards will not have a material impact on the Company's financial statements.

TRENDS

There are a number of trends that have been developing in the oil and gas industry during the past several years that appear to be shaping the near future of the business.

The first trend currently affecting the oil and gas industry, as well as many other industries, is the impact on capital markets caused by investor uncertainty in the credit markets and the global economy. Global economics ultimately dictate commodity demand and therefore prices. Novus realizes that it is a price taker and therefore must maintain financial flexibility to deal with uncertain commodity prices. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. Some companies will have to rely on internally generated funds to conduct their exploration and developmental programs. Novus is unable to estimate the timing or magnitude of stock market corrections in the context of the current global economic situation.

A second trend is the volatility of commodity prices. Natural gas is a commodity increasingly influenced by liquified natural gas coming from outside of North America and intensive shale gas drilling within North America. In addition, North American fluctuations in supply, influenced by drilling activity, natural gas storage levels, imports and demand (which is impacted both by weather and by economic factors) has resulted in significant volatility in the price of natural gas in Canada and the United States.

Crude oil is influenced by the world economy and OPEC's ability to adjust supply to world demand. Recently crude oil prices have been kept high by increased demand from growing economies in China and India as well as the ongoing political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by unrest in the Middle East. More recently, volatility has increased over short term demand concerns as a result of the slowing economy in the United States as well as globally.

The impact on the oil and gas industry from commodity price volatility is significant. Historically, during periods of high prices, producers generated higher cash flows and conducted active exploration programs without external capital. Higher commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. More recently the significant negative impact of regulatory changes combined with a period of lower natural gas prices and oil prices has dramatically reduced activity as all producers have little or no access to capital. With decreased activity, the prices charged by the various service suppliers have and will continue to decline.

A third trend has been the pronounced lack of equity capital available to the sector partially as a result of the Province of Alberta's continued alteration of the provincial royalty program. These drilling incentive programs are aimed at stimulating drilling activity not on reducing royalties imposed on existing production. Any new wells drilled will lose their reduced royalties and be subject to the new royalty framework rates after their related adjustment program periods end. It is expected that equity capital will continue to be volatile as details surrounding these announcements are cleared up and the market fully corrects for the potentially significant future implications of the increased, modified and future anticipated and unanticipated modifications to the Alberta royalty system. As a result of proposed changes and the instability related to risks of numerous future modifications, it may be more difficult for junior oil and gas companies to find equity financing which may continue to impact the liquidity and valuation of securities of such companies.

A fourth trend has been the Government of Canada's alteration of the taxation of publicly traded royalty trusts. On October 31, 2006, the Government of Canada announced its intention to begin taxing income trusts, including trusts that hold oil and gas properties. This announcement has caused significant volatility in the unit prices of these trusts as the market corrected for this announcement and as the clarification of the rules surrounding the implementation of trust taxation continues to unfold. As oil and gas trusts have been significant acquirers of junior exploration and production companies, the volatility of the trust market has been mirrored by junior exploration and production companies. Prior to the announcement regarding the new legislation, many junior oil and gas companies were able to divest themselves to the larger income

trusts entities when there was a business advantage to do so. As a result of the proposed changes, it may be more difficult for junior oil and gas companies to find an efficient route for divestment which may impact the liquidity and valuation of securities of such companies.

A fifth trend, and one that will continue to garner heightened attention and consequently increased governmental intervention, is an increasing call for carbon capture due to greenhouse gas emissions. Capital requirements to meet emission standards could be enormous and is directly impacted by events such as the Kyoto Protocol and Copenhagen Accord. Novus realizes that it will be required to meet governmental standards as they are introduced and must maintain the financial flexibility to do so.

CURRENT ECONOMIC CONDITIONS

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions continue to persist, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Conditions began to improve towards the end of 2009 and into the early part of 2010, however opinion remains divided on whether the global financial crisis is now at an end or whether the current upward trend will be followed by a period of continued uncertainty or volatility.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

2010 OUTLOOK

The Board of Directors of Novus has approved a 2010 capital expenditure budget of \$36 million which is expected to incorporate the drilling of 44 wells (37.5 net), the majority of which will be horizontal wells targeting light Viking oil at Dodsland, Saskatchewan. The \$36 million budget is expected to result in 2010 average production rates of between 1,300 to 1,350 boe/d with a 2010 exit production rate of 2,200 boe/d being forecast. The Company expects 80% of its year-end production to be comprised of oil. The Company expects to see positive funds flow from operations of \$15.0 million for 2010. This forecast is based on a natural gas price of CDN \$4.75 per mcf, an oil price of US \$80 WTI per barrel, operating costs of \$14.00 per boe and corporate average royalties of 15%.