MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") should be read in conjunction with Novus Energy Inc.'s ("Novus" or the "Company") unaudited condensed interim financial statements as at and for the three months and nine months ended September 30, 2012, and Novus' audited financial statements as at and for the year ended December 31, 2011. The accompanying financial statements of Novus have been prepared by management and approved by the Company's Audit Committee on behalf of the Board of Directors. The financial data presented herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically International Accounting Standard 34, "Interim Financial Reporting".

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).

All tabular amounts are stated in thousands except per share amounts or as otherwise stated.

This MD&A is current as at November 19, 2012.

NON-IFRS FINANCIAL MEASUREMENTS

Included in the MD&A are references to certain financial measures commonly used in the oil and natural gas industry, such as funds flow from operations, operating netbacks and net debt. These measures have no standardized meanings, are not defined by IFRS, and accordingly are referred to as non-IFRS measures. The determination of these measures may not be comparable to the same as reported by other companies and 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 IFRS as an indicator of the Company's performance or liquidity.

The Company considers funds flow from 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. Novus determines funds flow from operations as cash provided by operating activities prior to changes in non-cash working capital items and decommissioning expenditures. A reconciliation of cash provided by operating activities to funds flow from operations is presented below:

	Three months ended		Nine months ended	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Cash provided by operating activities	**$ 9,962**	$ 1,700	**$ 33,495**	$ 6,784
Change in non-cash working capital items	**748**	5,958	**(3,621)**	6,815
Decommissioning expenditures	**129**	275	**208**	480
Funds flow from operations	**$ 10,839**	$ 7,933	**$ 30,082**	$ 14,079

Operating netbacks are used by management to assess operating results between periods and between peer companies as they provide an indication of results generated by the Company's principal business activities before the consideration of how these activities are financed or how the results are taxed. Operating netbacks are calculated by deducting royalties, field operations and transportation and marketing expenses from production revenue.

The Company monitors net debt as part of its capital structure. Net debt is calculated as current assets less all current liabilities, including any bank debt.

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; 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

Novus is engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in Western Canada.

The principal and head office of the Company is located at Suite 5200, 150 - 6th Avenue S.W., Calgary, Alberta T2P 3Y7. The registered office of the Company is located at 3500, 855 – 2nd Street S.W., Calgary, Alberta T2P 4J8.

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

RESULTS OF OPERATIONS

Production

Novus' average daily production for the quarter ended September 30, 2012 was 3,154 boe/d, which was 46% greater than the 2,159 boe/d recorded in the quarter ended September 30, 2011. For the nine month period ending September 30, 2012, the daily average production was 2,929 boe/d, a 75% increase from the 1,676 boe/d in the first nine months of 2011. The higher production in 2012 is a reflection of the Company's ongoing drilling programs.

	Three months ended		Nine months ended	
Average production	**Sep 30, 2012**	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Oil & liquids (bbls/d)	**2,439**	1,730	**2,266**	1,207
Natural gas (mcf/d)	**4,287**	2,571	**3,980**	2,816
Oil equivalent (boe/d)	**3,154**	2,159	**2,929**	1,676

Production in the third quarter of 2012 increased from the 2,887 boe/d in the second quarter of 2012. Normal corporate declines were more than offset by production from wells completed and tied-in late in the second quarter and continuing into the third quarter.

Revenue and pricing

Gross production revenue for the three and nine months ended September 30, 2012 was $19.4 million and $54.6 million respectively versus $14.8 million and $32.0 million for the three and nine months ended September 30, 2011. The change in revenue is due to increased production, which more than offset the decrease in pricing.

The Company did not enter into any commodity derivative contracts locking in petroleum or natural gas prices during the current quarter nor has it entered into any such contracts as of the date of this MD&A.

	Three months ended		Nine months ended	
Sales revenue	**Sep 30, 2012**	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Oil & liquids	$ **18,345**	$ 13,898	$ **52,079**	$ 28,942
Natural gas	**1,006**	895	**2,551**	3,008
Total	$ **19,351**	$ 14,793	$ **54,630**	$ 31,950

	Three months ended		Nine months ended	
Sales price per unit	**Sep 30, 2012**	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Oil & liquids ($/bbl)	**81.75**	87.32	**83.89**	87.87
Natural gas ($/mcf)	**2.55**	3.79	**2.34**	3.91
Blended ($/boe)	**66.70**	74.49	**68.06**	69.84

Third quarter revenue increased from $16.7 million in the second quarter of 2012, due to the increase in oil volumes coupled with higher commodity pricing. For comparative purposes, the second quarter production numbers were 2,887 boe/d (2,153 bbls/d of oil and liquids and 4,402 mcf/d of gas) while pricing was $63.70/boe ($81.19/bbl for oil and liquids and $2.06/mcf for natural gas).

Royalties

Royalties, which include crown, freehold and overriding royalties paid on oil, liquids and natural gas production, amounted to $2.1 million during the third quarter of 2012 compared to $1.7 million during the same quarter in 2011. For the nine months ended September 30, 2012, total royalties were $6.3 million compared to $4.2 million for the same period in 2011.

As a percentage of production, royalties were 11% for both the three and nine month periods ending September 30, 2012.

	Three months ended		Nine months ended	
Royalties	**Sep 30, 2012**	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Total	**$ 2,142**	$ 1,681	**$ 6,250**	$ 4,154
Per boe	**$ 7.38**	$ 8.47	**$ 7.79**	$ 9.08
% of revenue	**11%**	11%	**11%**	13%

The majority of the Company's growth 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 average royalty rate of 12% in 2012.

Field Operations

Field operations for the quarter ended September 30, 2012 amounted to $2.9 million, or $9.95/boe, compared to $2.7 million, or $13.69/boe, during the quarter ended September 30, 2011. For the nine month period ended September 30, 2012, field operations were $8.4 million ($10.49/boe) compared to $7.2 million ($15.75/boe) for the same period in 2011. Field operations decreased on a boe basis due to a combination of factors, including the use of the new gathering system, the start up of the enhanced oil processing facilities in Dodsland and other operational efficiencies.

	Three months ended		Nine months ended	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Field operations	$ **2,888**	$ 2,720	$ **8,417**	$ 7,204
$/boe	$ **9.95**	$ 13.69	$ **10.49**	$ 15.75

Transportation and marketing costs

Total transportation and marketing costs for the three months ended September 30, 2012 amounted to $1.0 million or $3.50/boe, compared to $505 thousand or $2.55/boe, during the quarter ended September 30 2011. For the nine month period ended September 30, 2012, transportation costs were $2.7 million ($3.38/boe) compared to $1.2 million ($2.52/boe) for the same period in 2011. The higher transportation costs reflect increased oil trucking rates and wait times at constricted delivery points which had been steadily rising.

	Three months ended		Nine months ended	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Transportation	$ **1,016**	$ 505	$ **2,713**	$ 1,153
$/boe	$ **3.50**	$ 2.55	$ **3.38**	$ 2.52

Transportation and marketing costs increased slightly from $3.41/boe in the second quarter of 2012, largely due to increased trucking rates and continuing charges for wait times at constricted delivery points. With new arrangements recently in place, the Company expects to see a reduction in these costs going forward.

Operating netbacks

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

	Three months ended		Nine months ended	
Netback per boe	**Sep 30, 2012**	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Revenue	$ **66.70**	$ 74.49	$ **68.06**	$ 69.84
Royalties	**(7.38)**	(8.47)	**(7.79)**	(9.08)
Field operations	**(9.95)**	(13.69)	**(10.49)**	(15.75)
Transportation and marketing	**(3.50)**	(2.55)	**(3.38)**	(2.52)
Operating netbacks	$ **45.87**	$ 49.78	$ **46.40**	$ 42.49

With lower pricing, the $45.87/boe netback in the third quarter of 2012 was lower than the $49.78/boe in the comparative quarter. The decrease was mitigated by the reduction in field operating costs, as changes in royalties and transportation and marketing costs essentially netted themselves out. The $46.40/boe

netback in the first nine months of 2012 was higher than the $42.49/boe recorded in the first nine months of 2011. Here, the lower pricing was more than offset by the reduction in operating costs, with changes in royalties and transportation and marketing costs again having a minimal impact.

The third quarter operating netback is higher than the $41.95/boe reported in the second quarter of 2012, as prices rose from $63.70/boe and royalties decreased from $8.38/boe. Field operations and transportation and marketing costs remained flat.

General and administrative expenses

Total general and administrative expenses during the third quarter of 2012 amounted to $1.7 million compared to $1.4 million a year ago. For the first nine months of 2012, $4.8 million of general and administrative expenses were incurred compared to $4.4 million in the same period last year. Going forward, while the Company anticipates small increases to general and administrative expenditures on an absolute basis, they should decrease on a per boe basis as new production is added and comes on stream.

Exploration and evaluation expenses

Exploration and evaluation ("E&E") expenses for the three and nine months ended September 30, 2012 were $84 thousand and $244 thousand respectively, compared to $34 thousand and $91 thousand for the three and nine months ended September 30, 2011 respectively. The charges in 2012 primarily relate to carrying costs on non-producing lands.

Finance costs

Finance costs include both borrowing and accretion costs. The borrowing component includes interest, commitment fees, standby charges, and other expenses related to the Company's credit facilities and borrowings. Accretion costs relate to the provision of the Company's decommissioning liabilities.

The breakdown of these costs is as follows:

	Three months ended		Nine months ended	
Finance costs	**Sep 30, 2012**	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Borrowing costs	**$ 396**	$ 334	**$ 1,216**	$ 499
Accretion	**76**	99	**223**	266
Total	**$ 472**	$ 433	**$ 1,439**	$ 765

	Three months ended		Nine months ended	
Finance costs per boe	**Sep 30, 2012**	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Borrowing costs	**$ 1.37**	$ 1.69	**$ 1.51**	$ 1.09
Accretion	**0.26**	0.50	**0.28**	0.58
Total ($/boe)	**$ 1.63**	$ 2.19	**$ 1.79**	$ 1.67

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 third quarter of 2012, $481 thousand of stock-based compensation expense was recognized, which compares to $712 thousand in the third quarter of 2011. For the nine month period ending September 30, 2012, $1.8 million of stock-based compensation expense was recognized, which compares to $3.1 million during the comparative period of 2011. Stock-based compensation costs were lower as fewer options vested in 2012 than in 2011.

Depletion and depreciation

Total depletion and depreciation expense for the three and nine months ended September 30, 2012 amounted to $7.8 million ($26.72/boe) and $18.9 million ($23.54/boe), respectively versus $4.4 million ($22.13/boe) and $10.4 million ($22.68/boe) for the three and nine month periods ended September 30, 2011. The higher charge largely reflects the increased book value of the Company's assets.

No impairment of assets was recognized for the three and nine months ended September 30, 2012, nor the comparative periods of 2011.

	Three months ended		Nine months ended	
Depletion and depreciation	**Sep 30, 2012**	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Depletion	$ **6,885**	$ 4,352	$ **17,874**	$ 10,248
Depreciation	**32**	43	**101**	130
Surrendered leases	**836**	-	**919**	-
Total	$ **7,753**	$ 4,395	$ **18,894**	$ 10,378
Total ($/boe)	$ **26.72**	$ 22.13	$ **23.54**	$ 22.68

Income taxes

The $309 thousand and $866 thousand charges for current income taxes during the three and nine months ended September 30, 2012 respectively, is the Saskatchewan Resource Surcharge on the Company's Saskatchewan production revenue. This is up from the $207 thousand and $420 recorded in the comparative periods of 2011, as a result of the Company's production growth in Saskatchewan.

The following is a summary of the estimated tax pools of the Company as at September 30, 2012:

Classification	Pool balance
Non-capital loss carry-forwards	**$ 79,983**
Canadian development expenditures	**71,200**
Capital cost allowance	**36,766**
Canadian oil and gas property expenditures	**34,683**
Scientific research and development	**18,899**
Canadian exploration expenditures	**9,061**
Share issue costs	**1,806**
Other	**222**
	$ 252,620

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

Year	Amount
2013	**$ 4,672**
2014	**1,898**
2022 – 2032	**73,413**
Total non-capital loss carry-forwards	**$ 79,983**

Deferred income taxes amounted to $777 thousand and $3.5 million for the three and nine months ended September 30, 2012 respectively, which compares to $nil for the three and nine months ended September 30, 2011. The 2012 figures are a reflection of the increased profitability of the Company, and reduce the Company's deferred income tax asset.

Net income, funds flow and cash flow from operations

	Three months ended		Nine months ended	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Net income	$ **1,720**	$ 3,460	**5,654**	$ 1,368
per share - basic	**0.01**	0.02	**0.03**	0.01
- diluted	**0.01**	0.02	**0.03**	0.01
Funds flow from operations [(1)]	**10,839**	7,933	**30,082**	14,079
per share - basic	**0.06**	0.05	**0.16**	0.08
- diluted	**0.06**	0.05	**0.16**	0.08
Cash flow from operations	**9,962**	1,700	**33,495**	6,784
per share - basic	**0.05**	0.01	**0.18**	0.04
- diluted	**0.05**	0.01	**0.18**	0.04
Weighted average shares outstanding				
basic	**189,800**	169,700	**185,986**	169,328
diluted	**191,464**	172,855	**189,843**	181,113

(1) Funds flow from operations has been presented for information purposes only and should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. The Company considers funds flow from 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 operations may not be comparable to the same reported by other companies. The reconciliation of net income and funds flow from operations can be found in the "Non-IFRS financial measurements" section at the front of this MD&A. Funds flow from operations per share was calculated using the same weighted average shares outstanding used in calculating net income per share.

Capital expenditures

During the third quarter of 2012, the Company recorded $23.0 million of net capital expenditures compared to $31.3 million during the comparative quarter of 2011. During the third quarter of 2012, the Company drilled 22 wells (22.0 net), all of which were horizontal wells at Dodsland, Saskatchewan. Twenty (20.0 net) wells were completed in the quarter. For the first nine months of the year, the Company drilled 48 wells (48.0 net) and completed 36 (36.0 net). The Company also completed and placed in service a series of oil and effluent pipelines in the Dodsland area to gather the increased oil production and conserve natural gas. Enhanced oil processing facilities and additional tanks were also placed at the Company's Dodsland oil battery. A further breakdown of the capital expenditures is outlined below:

	Three months ended		Nine months ended	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Land acquisition	**$ 654**	$ 331	**$ 1,839**	$ 2,533
Drilling and completions	**19,447**	24,795	**40,991**	47,334
Equipping and facilities	**2,845**	6,268	**15,309**	11,892
Property acquisitions	**-**	2,786	**-**	2,786
Furniture and fixtures	**4**	114	**26**	131
Gross expenditures	**22,950**	34,294	**58,165**	64,676
Dispositions	**-**	(3,000)	**(5)**	(3,250)
Net expenditures	**22,950**	31,294	**58,160**	61,426

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

The Company considers its capital structure to consist of working capital, including 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 to raise additional funds and adjusting its capital spending to manage current and projected debt levels. 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 was no change in the Company's approach to Capital management during the nine months ended September 30, 2012.

The Company monitors its capital structure using primarily the non-IFRS measurement ratio of net debt to funds flow from operations, annualized from the most recent quarter. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus net working capital, divided by annualized funds flow from operations. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital and decommissioning expenditures from the Company's most recent quarter, multiplied by four. The objective is to maintain this ratio below 1.5:1, although this ratio may temporarily increase at certain times as a result of acquisitions or other significant capital expenditures for which the full quarterly effect of funds flow has not yet been accounted for. As at September 30, 2012 the ratio of net debt to funds flow from operations was 1.4:1 calculated as follows:

		Three months ended **Sep 30, 2012**
Current assets	**$**	**9,014**
Current liabilities		**(70,209)**
Net debt	**$**	**(61,195)**
Cash flow from operations	**$**	**9,962**
Changes in non-cash working capital items		**748**
Decommissioning expenditures		**129**
Funds flow from operations		**10,839**
Annualized funds flow from operations	**$**	**43,356**
Net debt to annualized funds flow from operations		**1.4:1**

The Company's share capital is not subject to any external restrictions; however its credit facility is subject to periodic review. 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 revolving operating demand loan may be added to current assets. As at September 30, 2012, this working capital ratio was 1.2:1.

Equity instruments

During the first quarter of 2012, the Company issued 22,176,730 common shares, at a price of $0.75 per common share, on the exercise of share purchase warrants. A total of 384,870 warrants expired without exercise. During the second quarter, the Company acquired and cancelled 882,000 common shares, at an average cost of $0.71 per common share, pursuant to its Normal Course Issuer Bid ("NCIB"). During the third quarter, the Company acquired and cancelled a further 910,000 common shares, at an average cost of $0.73 per common share.

As at September 30, 2012, the Company had the following equity instruments outstanding:

Common shares outstanding	189,375
Issuable upon the exercise of outstanding stock options	18,087
Issuable upon the exercise of outstanding performance warrants	4,200
Total equity instruments outstanding	211,662

The following table summarizes the outstanding stock options as at September 30, 2012 by expiry date:

Date of Grant	Number of Options	Exercise Price	Date of Expiry
Jul 16, 2008	247	$ 2.00	Jul 16, 2013
Sep 4, 2009	3,000	$ 0.60	Sep 4, 2014
Feb 9, 2010	3,775	$ 0.88	Feb 9, 2015
Jun 17, 2010	295	$ 1.10	Jun 17, 2015
Oct 1, 2010	550	$ 0.90	Oct 1, 2015
Nov 1, 2010	6,880	$ 0.85	Nov 1, 2015
Nov 23, 2010	225	$ 0.90	Nov 23, 2015
Feb 10, 2011	60	$ 1.23	Feb 10, 2016
Dec 8, 2011	1,100	$ 0.82	Dec 8, 2016
Mar 14, 2012	105	$ 1.06	Mar 14, 2017
Apr 20, 2012	1,850	$ 0.92	Apr 20, 2017
	18,087	$ 0.84	

The Company's 4,200,000 performance warrants were granted on September 4, 2009 for a term of three years. As a result of having achieved all net asset value per share growth targets, each performance warrant has vested and is exercisable into one common share at a price of $0.56 per performance warrant. During the second quarter of 2012, the expiry date of the performance warrants was extended by two years to September 4, 2014.

On September 14, 2012, the Company's NCIB expired. For the period September 20, 2012 through September 19, 2013, Novus has instituted a new NCIB pursuant to which the Company may purchase, for cancellation, up to 5,000,000 of its issued and outstanding common shares through the facilities of the TSX Venture Exchange ("TSX-V"). Novus' reasoning for the NCIB is that from time to time, the purchase of common shares for cancellation will increase the proportionate interest of, and be advantageous to, all remaining shareholders. In addition, any purchases made by Novus will afford increased liquidity to those shareholders of the Company who may wish to dispose of their shares. Shareholders may obtain, without charge, a copy of the NCIB notice filed with the TSX-V by contacting Novus directly.

As of the date of this MD&A, Novus has 189,375,042 common shares outstanding. A further 18,087,000 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 September 30, 2012, the Company had a working capital deficit of $61.2 million, compared to $48.3 million at December 31, 2011. Components of the working capital figures are contained in the following table:

	Sep 30, 2012	Dec 31, 2011
Accounts receivable	**8,290**	8,859
Deposits and prepaid expenses	**724**	410
Accounts payable and accrued liabilities	**(19,653)**	(7,942)
Bank debt	**(50,556)**	(49,584)
Total working capital (deficit)	**$ (61,195)**	$ (48,257)

As at September 30, 2012, the Company had a credit facility consisting of a revolving operating demand loan to a maximum of $65 million. The loan is available to the Company by way of prime rate based loans, bankers' acceptance and letters of credit/guarantee with interest paid monthly. Interest on the revolving operating demand loan is payable at prime plus 0.75%. The credit facility is secured by a general assignment of book debts and a $75 million debenture with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges upon request. 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 revolving operating demand loan may be added to current assets. As at September 30, 2012, this ratio was 1.2:1.

Subsequent to September 30, 2012, the Company's revolving operating demand loan was increased to $95 million and a $10 million acquisition/development demand loan was added. The debenture has been increased to $150 million to allow for future growth, and interest on the acquisition/development demand loan is charged at prime plus 1.25%. The credit facilities are subject to periodic review by the bank, with the next review scheduled on or before May 1, 2013, but may be set at an earlier or later date at the sole discretion of the bank.

COMMITMENTS

As at September 30, 2012, the Company had commitments as follows:

	2012	**2013**	**2014**	**Thereafter**
Office lease	$ 161	$ 592	$ -	$ -

SUMMARY OF QUARTERLY RESULTS

	Three months ended			
	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
Petroleum and natural gas sales	$ 19,351	$ 16,737	$ 18,542	$ 21,187
Funds flow from operations	10,839	8,583	10,660	12,025
per share - basic	0.06	0.04	0.06	0.07
per share - diluted	0.06	0.04	0.06	0.07
Net income (loss)	1,720	1,090	2,844	(2,176)
per share - basic	0.01	0.01	0.02	(0.01)
per share - diluted	0.01	0.01	0.02	(0.01)
Cash capital expenditures, net	22,950	17,076	18,134	11,684
Average daily production (boe/d)	3,154	2,887	2,745	2,845
Average selling price ($/boe)	66.70	63.70	74.23	80.97
Operating netback ($/boe)	45.87	41.95	51.73	55.34
Weighted average shares - basic	189,800	190,985	177,133	168,974
Weighted average shares - diluted	191,464	192,893	185,021	168,974

	Three months ended			
	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010
Petroleum and natural gas sales	$ 14,793	$ 8,286	$ 8,871	$ 7,979
Funds flow from operations	7,933	2,938	3,208	2,442
per share – basic	0.05	0.02	0.02	0.01
per share – diluted	0.05	0.02	0.02	0.01
Net income (loss)	3,460	(760)	(1,332)	3,908
per share – basic	0.02	-	(0.01)	0.02
per share – diluted	0.02	-	(0.01)	0.02
Cash capital expenditures, net	31,294	18,130	12,002	18,607
Average daily production (boe/d)	2,159	1,318	1,544	1,571
Average selling price ($/boe)	74.49	69.09	63.83	55.21
Operating netback ($/boe)	49.78	40.12	34.11	29.90
Weighted average shares – basic	169,700	170,018	168,248	166,395
Weighted average shares – diluted	172,855	170,018	168,248	170,612

Production in the first quarter of 2011 fell marginally as normal production declines were not completely offset by the few new wells coming on production. The decline in the second quarter of 2011 was a continuation of this trend, coupled with production being shut-in at Wembley due to third party plant maintenance. Production increased in the third and fourth quarters of 2011 as wells drilled in the second and third quarters were brought on stream. In the first quarter of 2012, production dipped slightly as wells in the greater Dodsland area were shut-in to accommodate the startup of a new oil and gas gathering system and the line was backfilled before coming on stream towards the end of the quarter. Production volumes increased marginally during the second quarter of 2012 as a result of increased gas conservation and sales due to a new gathering system. Production continued to increase in the third quarter as normal corporate declines were more than offset by production from wells completed and tied-in late in the second quarter and continuing into the third quarter.

Production revenue is a function of sales volumes and commodity prices. Oil prices continued to rise throughout 2011, partially offsetting the impact of lower volumes in the second quarter and adding to the effect of higher volumes in the third and fourth quarters. The decline in production revenue in the first half of 2012 was largely attributed to the decline in commodity prices, as volumes did not change significantly. Increased production and higher commodity prices in the third quarter of 2012 contributed to the turnaround in production revenue.

Funds flow from operations starts with production revenue and is affected by royalties, field operations, transportation and marketing costs, general and administrative expenditures, certain finance costs and current taxes. For 2011, funds flow from operations generally followed the increase in production revenue, with the third and fourth quarter figures achieving a higher proportionate increase due to lower royalties and operating costs as a percentage of the sales price. Funds flow for the first half of 2012 trended downwards, following the decrease in production revenue, but increased in the third quarter, again following the trend in production revenue.

The positive net income in the fourth quarter of 2010 was attributable to a deferred income tax recovery of $12.5 million. The net loss for the first two quarters of 2011 showed improvement, principally as a result of increased production revenue as discussed above, with positive net income being generated in the third quarter. The fourth quarter of 2011 moved back to a loss position as a deferred income tax recovery of $5.5 million could not offset property impairments of $9.9 million and undeveloped land expiries of $1.7 million. Positive net income was generated in the first quarter of 2012 on the back of continued strong operating results. Net income was lower in the second quarter, following the decline in funds flow from operations. The third quarter saw this trend reversed, following the increase in funds flow from operations.

The capital expenditure figures do not include non-cash transactions and business combinations. Capital expenditures for the last quarter of 2010 included a drilling program and construction of two batteries in the greater Dodsland area. For the first quarter of 2011, capital expenditures consisted of drilling and completions in both Dodsland and the Company's northwest Alberta areas along with related infrastructure construction. During the second quarter of 2011, drilling and completion activities commenced on the Company's Viking play in Saskatchewan. The activities ramped up in the third quarter, and tapered off towards year end. Capital spending picked up again in the first quarter of 2012 as 13 wells (13.0 net) were drilled with eight wells (8.0 net) completed and placed on production. In addition, a major emulsion gathering system was constructed and became operational. The second quarter of 2012 saw an additional 13 wells (13.0 net) drilled and eight (8.0 net) completed. The Company also enhanced its Dodsland oil facilities and purchased additional tankage. In the third quarter, the Company drilled an additional 22 wells (22.0 net) and 20 wells (20.0 net) were completed and placed on production.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at September 30, 2012 consist of accounts receivable, deposits, accounts payable and accrued liabilities and bank debt. The fair values of accounts receivable, deposits, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of bank debt approximates its carrying value due to it bearing interest at a floating market rate.

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 counterparty 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. The Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Two of these marketers owed the Company $6.7 million at September 30, 2012, which was subsequently received. 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. As at September 30, 2012, the Company has a provision for doubtful accounts in the amount of $175 thousand. Although an allowance has been provided, the Company will continue to pursue collection of the balance. The allowance may be adjusted if circumstances or events change. When determining whether past due accounts are collectible, the Company factors in the past credit history of the counter parties.

As at September 30, 2012, the Company's accounts receivable were comprised of the following:

Sales revenue receivable	$	6,911
Joint interest receivable		717
Cash call receivable		1
Accrued and other receivable		661
Total accounts receivable	$	8,290

As at September 30, 2012, the Company estimates its accounts receivables to be aged as follows:

	Total		0 to 30 days		31 to 60 days		61 to 90 days		Greater than 90 days
$	8,290	$	7,630	$	10	$	20	$	630

The Company considers all amounts greater than 90 days as past due and collectible.

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 September 30, 2012, the Company's accounts payable and accrued liabilities were $19.7 million, all of which are due for payment within normal terms of trade, which are generally between 30 and 60 days. As at September 30, 2012, the Company had a $65 million revolving operating demand facility to manage its liquidity and settlement of liabilities, of which $50.6 million had been drawn. Subsequent to quarter end, the amount of the facility was increased to $75 million.

The Company's financial liabilities at September 30, 2012 are aged as follows:

	Total		0 to 30 days		31 to 60 days		61 to 90 days		Greater than 90 days
$	19,653	$	15,711	$	2,455	$	848	$	639

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 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 and the impact of such exchange rate fluctuations cannot be accurately quantified. The Company had no forward exchange rate contracts in place, nor any working capital items denominated in foreign currencies, as at or during the three and nine months ended September 30, 2012.

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 three and nine months ended September 30, 2012.

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.

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 monitoring its debt levels; 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

Recent Accounting Pronouncements

Financial Instruments

The International Accounting Standards Board ("IASB") intends to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") with IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 will be published in three phases, of which the first phase has been published.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. For financial liabilities, the approach to the fair value option may

require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

IFRS 9 is currently effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of this standard.

Fair Value Measurements

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement" which provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. Prospective application of this standard is effective for fiscal periods beginning on or after January 1, 2013, with early adoption permitted. The Company is currently assessing the impact of this standard.

Reporting Entity

In May 2011, The IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), IFRS 11, "Joint Arrangements" ("IFRS 11"), IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") and amendments to both IAS 27, "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates".

IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangement by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation to arrangements that meet the definition of a joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles.

Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted if all of the standards are collectively adopted. The Company is currently assessing the impact of these standards.

CURRENT ECONOMIC CONDITIONS AND TRENDS

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

The first trend is the volatility of commodity prices. Natural gas is a commodity increasingly influenced by liquefied 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 the Organization of the Petroleum Exporting Countries 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 ongoing political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by unrest in the Middle East.

The impact on the oil and natural 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. The costs associated with purchasing land and properties similarly increase in price during these periods.

A second 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 are directly impacted by events such as binding international commitments. Novus realizes that it will be required to meet governmental standards as they are introduced and must maintain the financial flexibility to do so.

The third trend currently affecting the oil and natural 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 natural 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 fluctuations.

OUTLOOK

Novus is forecasting production to average approximately 3,100 boe/d (77% oil & liquids) in 2012 with an exit rate of 4,200 boe/d (77% oil & liquids). Due to timing issues caused by weather delays, by year end the Company expects to have drilled 71 wells and completed 68 wells as opposed to 73 wells which were projected in the original budget. The Company expects that it will catch up to its original schedule by the first quarter of 2013. Capital expenditures for 2012 are anticipated to be $88.5 million up from the $81 million originally projected due to additional spending on facilities and infrastructure and undeveloped land acquisitions which greatly enhanced the Company's exposure to prospective Viking oil opportunities. Of the $88.5 million, $11.5 million will have been incurred on facilities and infrastructure and another $3.4 million will be expended on land. The Company's original projections of $81.0 million did not budget for any land expenditures and $6.0 million being spent on facilities. During the course of the year, the Company made the strategic decision to make additional investments to build out its facilities and create an infrastructure system capable of handling the significant production volumes the Company expects to generate in the coming years. The investments in area infrastructure have resulted in the Company incurring far lower operating costs during the course of 2012, and future years should continue this trend. 2012 estimated year end net debt is anticipated to be $78 million, and 2012 funds flow from operations is anticipated to be $43 million. The increase in the year end forecast net debt is attributable to the increased capital spending the Company dedicated to land and facilities during the year, and the reduced cash flow it will see as a result of lower than forecast crude oil pricing and increased differentials.

With the expansion of the Company's credit facilities to $105 million, made up of a $95 million revolving operating demand loan and a $10 million acquisition/development demand loan, these updated facilities provide the Company the flexibility to maintain a solid financial position and enable it to fund capital programs for future years.

Novus has worked hard to become one of the most efficient Viking drillers in the Dodsland play. Costs of drilling and completions have continued to improve and have had a material impact on the economics of the Company's Viking wells. Initial production rates from all our sub areas in Dodsland continue to meet or exceed Novus' internal type curves.

Our continued drilling success in Dodsland has highlighted the repeatable, low risk nature of our asset base. Since recapitalization, three and a half years ago, the Viking play at Dodsland has transitioned the Company from a start up of approximately 300 boe/d to a light oil producer with production in excess of 3,600 boe/d. This rapid growth has been achieved mainly from the drill bit.

Novus' Dodsland properties are high net back, light oil assets characterized by significant original oil in place, low recovery factors and year round access. The Company has 609 net high quality risked Viking oil drilling locations on its 117 net sections of land based on an eight well per section drilling density. This already significant opportunity base does not reflect the ability to down space from eight to 16 wells per

section or the future potential to water flood the reservoir. Novus believes that the development of the Viking resource is in its early stages and that there is further significant upside by applying secondary recovery methods. The 609 locations do not include potential locations on the Company's recently acquired Alberta Viking lands.

Due to the high quality of Novus' asset base and the significant amount of industry interest and recent activity in the Company's Viking oil core area of Dodsland Saskatchewan, the Board of Directors of Novus have struck a Special Committee of the Board to consider how to optimize shareholder value.

Novus Energy Inc
Condensed Interim Financial Statements
September 30, 2012
(unaudited)

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Novus Energy Inc.
Condensed Interim Statement of Financial Position
(unaudited)

($CAD, thousands)	Notes	**Sep 30, 2012**	Dec 31, 2011
ASSETS			
Current Assets			
Cash and cash equivalents		**$ -**	$ -
Accounts receivable	11	**8,290**	8,859
Deposits and prepaid expenses		**724**	410
		9,014	9,269
Exploration and evaluation	3	**11,061**	10,212
Property and equipment	3,4	**176,908**	137,415
Deferred income taxes		**20,462**	23,930
		$ 217,445	$ 180,826
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	11	**$ 19,653**	$ 7,942
Bank debt	5	**50,556**	49,584
		70,209	57,526
Decommissioning liabilities	6	**12,773**	11,655
		82,982	69,181
Shareholders' Equity			
Equity instruments	7	**131,412**	116,089
Contributed surplus		**15,528**	13,645
Deficit		**(12,477)**	(18,089)
		134,463	111,645
		$ 217,445	$ 180,826

Commitments – note 13
Subsequent events – note 5

See accompanying notes.

Approved on behalf of the Board:

(signed) *"Hugh G. Ross"*

Hugh G. Ross - Director

(signed) *"Larry C. Mah"*

Larry C. Mah - Director

Novus Energy Inc.
Condensed Interim Statement of Income and Comprehensive Income
(unaudited)

($CAD, thousands, except per share amounts)	Notes	**Three month period ended** **Sep 30, 2012**	Sep 30, 2011	**Nine month period ended** **Sep 30, 2012**	Sep 30, 2011
REVENUE					
Production revenue		**$ 19,351**	$ 14,793	**$ 54,630**	$ 31,950
Royalties		**(2,142)**	(1,681)	**(6,250)**	(4,154)
		17,209	13,112	**48,380**	27,796
EXPENSES					
Field operations		**2,888**	2,720	**8,417**	7,204
Transportation and marketing		**1,016**	505	**2,713**	1,153
General and administrative		**1,677**	1,379	**4,842**	4,350
Exploration and evaluation		**84**	34	**244**	91
Stock-based compensation	7(c)	**481**	712	**1,816**	3,050
Depletion and depreciation	3, 4	**7,753**	4,395	**18,894**	10,378
		13,899	9,745	**36,926**	26,226
Income from operations		**3,310**	3,367	**11,454**	1,570
Other income (loss)					
Finance costs	8	**(472)**	(433)	**(1,439)**	(765)
Gain (loss) on sale of property		**(32)**	733	**(27)**	983
		(504)	300	**(1,466)**	218
Income before income taxes		**2,806**	3,667	**9,988**	1,788
Current	9	**309**	207	**866**	420
Deferred		**777**	-	**3,468**	-
		1,086	207	**4,334**	420
Net income and comprehensive income for the period		**$ 1,720**	$ 3,460	**$ 5,654**	$ 1,368
Net income and comprehensive income per share					
Basic	7(e)	**$ 0.01**	$ 0.02	**$ 0.03**	$ 0.01
Diluted	7(e)	**$ 0.01**	$ 0.02	**$ 0.03**	$ 0.01

See accompanying notes.

Novus Energy Inc.
Condensed Interim Statement of Changes in Shareholders' Equity
(unaudited)

($CAD, thousands)	Notes	Three month period ended **Sep 30, 2012**	Sep 30, 2011	Nine month period ended **Sep 30, 2012**	Sep 30, 2011
Equity instruments	7				
Common shares					
Balance – beginning of period		**$ 132,043**	$ 111,194	**$ 112,208**	$ 108,122
Issued on exercise of stock options		**-**	-	**-**	112
Issued on exercise of warrants		**-**	91	**20,447**	3,398
Normal course issuer bid	7(d)	**(631)**	(731)	**(1,243)**	(1,078)
Balance – end of period		**$ 131,412**	$ 110,554	**$ 131,412**	$ 110,554
Warrants					
Balance – beginning of period		**$ -**	$ 3,903	**$ 3,881**	$ 4,520
Exercised		**-**	(17)	**(3,814)**	(634)
Expired		**-**	-	**(67)**	-
Balance – end of period		**$ -**	$ 3,886	**$ -**	$ 3,886
Total equity instruments		**$ 131,412**	$ 114,440	**$ 131,412**	$ 114,440
Contributed surplus					
Stock-based compensation	7(c)				
Balance – beginning of period		**$ 11,290**	$ 7,420	**$ 9,955**	$ 5,122
Stock-based compensation expense		**481**	712	**1,816**	3,050
Exercise of stock options		**-**	-	**-**	(40)
Balance – end of period		**$ 11,771**	$ 8,132	**$ 11,771**	$ 8,132
Warrants					
Balance – beginning of period		**$ 3,757**	$ 3,691	**$ 3,690**	$ 3,691
Expiry of warrants		**-**	-	**67**	-
Balance – end of period		**$ 3,757**	$ 3,691	**$ 3,757**	$ 3,691
Total contributed surplus		**$ 15,528**	$ 11,823	**$ 15,528**	$ 11,823
Deficit					
Balance – beginning of period		**$ (14,165)**	$ (19,156)	**$ (18,089)**	$ (16,831)
Net income for the period		**1,720**	3,460	**5,654**	1,368
Excess cost over stated value on normal course issuer bid purchases	7(d)	**(32)**	(216)	**(42)**	(449)
Balance – end of period		**$ (12,477)**	$ (15,912)	**$ (12,477)**	$ (15,912)
Total shareholders' equity		**$ 134,463**	$ 110,351	**$ 134,463**	$ 110,351

See accompanying notes.

Novus Energy Inc.
Condensed Interim Statement of Cash Flows
(unaudited)

($CAD, thousands)	Notes	**Three month period ended** **Sep 30, 2012**	Sep 30, 2011	**Nine month period ended** **Sep 30, 2012**	Sep 30, 2011
CASH PROVIDED BY (USED IN)					
OPERATING ACTIVITIES					
Net income for the period		**$ 1,720**	$ 3,460	**$ 5,654**	$ 1,368
Non-cash and other items:					
Stock-based compensation		**481**	712	**1,816**	3,050
Depletion and depreciation		**7,753**	4,395	**18,894**	10,378
Loss (gain) on sale of property		**32**	(733)	**27**	(983)
Finance costs		**76**	99	**223**	266
Deferred income taxes		**777**	-	**3,468**	-
Decommissioning expenditures		**(129)**	(275)	**(208)**	(480)
Change in non-cash working capital	10	**(748)**	(5,958)	**3,621**	(6,815)
		9,962	1,700	**33,495**	6,784
FINANCING ACTIVITIES					
Proceeds from bank debt, net		**8,079**	28,951	**972**	40,200
Proceeds from issuance of equity instruments, net of issuance costs		**-**	74	**16,633**	2,836
Redemption of share capital		**(663)**	(947)	**(1,285)**	(1,527)
		7,416	28,078	**16,320**	41,509
INVESTING ACTIVITIES					
Capital expenditures		**(22,950)**	(34,294)	**(58,165)**	(64,676)
Proceeds from sale of property		**-**	3,000	**5**	3,250
Change in non-cash working capital	10	**5,572**	1,516	**8,345**	8,070
		(17,378)	(29,778)	**(49,815)**	(53,356)
Decrease in cash and cash equivalents		**-**	-	**-**	(5,063)
Cash and cash equivalents, beginning of period		**-**	-	**-**	5,063
Cash and cash equivalents, end of period		**$ -**	$ -	**$ -**	$ -

Supplemental cash flows disclosure – note 10.

See accompanying notes.

1. Description of business

Novus Energy Inc. ("Novus" or the "Company") is engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in Western Canada.

The principal and head office of the Company is located at Suite 5200, 150 - 6th Avenue S.W., Calgary, Alberta T2P 3Y7. The registered office of the Company is located at 3500, 855 – 2nd Street S.W., Calgary, Alberta T2P 4J8.

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

These condensed interim financial statements were approved and authorized for issuance by the Audit Committee on November 19, 2012 on behalf of the Board of Directors.

2. Basis of preparation

Statement of compliance

These condensed interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2011. They have been prepared according with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Accordingly, certain information and disclosure normally include in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. The disclosure provided herein is incremental to the disclosure included in the annual financial statements. The condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2011.

3. Exploration and evaluation

Cost	**Sep 30, 2012**	Dec 31, 2011
Balance, beginning of period	**$ 10,212**	$ 11,779
Additions	**1,839**	2,991
Dispositions	**-**	(57)
Transfers to property and equipment	**(71)**	(2,777)
Surrendered and expired leases	**(919)**	(1,724)
Balance, end of period	**$ 11,061**	$ 10,212

Exploration and Evaluation ("E&E") assets consist of the Company's unproved properties and capitalized exploratory drilling and completion costs which are pending the determination of commercial viability. The Company assesses the recoverability of these assets both before and at the time of transfer to property and equipment within the Company's Cash Generating Units ("CGU").

4. Property and equipment

Petroleum and natural gas properties	**Sep 30, 2012**	Dec 31, 2011
Balance, beginning of period	**$ 205,423**	$ 127,870
Additions	**57,433**	77,189
Dispositions	**(679)**	(2,413)
Transfers from exploration and evaluation	**71**	2,777
Balance, end of period	**$ 262,248**	$ 205,423

Other corporate assets		**Sep 30, 2012**		Dec 31, 2011
Balance, beginning of period	**$**	**745**	$	552
Additions		**26**		193
Balance, end of period	**$**	**771**	$	745

Accumulated depletion, depreciation and impairment		**Sep 30, 2012**		Dec 31, 2011
Balance, beginning of period	**$**	**68,753**	$	42,226
Dispositions		**(617)**		-
Depletion, depreciation and impairment expense		**17,975**		26,527
Balance, end of period	**$**	**86,111**	$	68,753

Carrying amounts		**Sep 30, 2012**		Dec 31, 2011
Petroleum and natural gas properties	**$**	**176,717**	$	137,149
Other corporate assets		**191**		266
	$	**176,908**	$	137,415

The depletion, depreciation and impairment of property and equipment, and any reversal thereof, are recognized in depletion and depreciation expense.

Future development costs of $171.3 million (December 31, 2011 – $183.8 million) were included in depletable costs as these costs are necessary to bring the proved and probable reserves into production.

General and administrative expenditures of $388 thousand for the nine months ended September 30, 2012 (2011 - $367 thousand) were capitalized as they were directly attributable to drilling, completion and facility construction activities.

During the fourth quarter of 2011, the Company recognized impairments on the following CGUs:

Central Alberta	$	112
North Central Alberta		281
Northwest Alberta		8,107
Southeast Saskatchewan		1,425
	$	9,925

The total impairments recognized were recorded as additional depletion, depreciation and impairment expense. The impairments were recognized due to a combination of lower natural gas prices during the periods and a revision of estimated reserves on certain properties, which resulted in the fair value less costs to sell of the applicable CGUs being less than their carrying amounts. The fair values of the CGUs were calculated using before tax future net cash flows based on proved and probable reserves and discounted at a rate of 10%. In determining the discount rate, the Company considered acquisition metrics of recent transactions completed on assets similar to those in the specific CGU.

No impairment was recorded for the three and nine months ended September 30, 2012 since prevailing conditions have not changed and there are no other indicators of impairment.

5. Bank debt

As at September 30, 2012, the Company had $50.6 million drawn against its $65 million revolving operating demand line. The loan is available to the Company by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee with interest paid monthly. Interest on the revolving operating demand loan is charged at prime plus 0.75%. The credit facility is secured by a general assignment of book debts and a $75 million debenture with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges upon request. 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, outstanding bank debt and the fair value of any commodity contracts are excluded and the unused portion of the revolving operating demand loan may be added to current assets. As at September 30, 2012, this ratio was 1.2:1.

The effective interest rate for the bank debt for the three months ended September 30, 2012 was 3.42% (2011 – 3.75%) and 3.66% for the nine months ended September 30, 2012 (2011 – 3.75%).

Subsequent to September 30, 2012, the Company's revolving operating demand loan was increased to $95 million and a $10 million acquisition/development demand loan was added. The debenture has been increased to $150 million, and interest on the acquisition/development demand loan is charged at prime plus 1.25%. The credit facilities are subject to periodic review by the bank, with the next review scheduled on or before May 1, 2013, but may be set at an earlier or later date at the sole discretion of the bank.

6. Decommissioning liabilities

The Company's decommissioning liabilities are based on the Company's net ownership in wells and facilities along with management's estimate of the timing and expected future costs associated with the plugging and abandonment of wells, facilities dismantlement and site reclamation.

The following table reconciles the changes in the Company's decommissioning liabilities:

	Sep 30, 2012	Dec 31, 2011
Decommissioning liabilities, beginning of period	**$ 11,655**	$ 8,174
Liabilities incurred	**1,133**	2,610
Liabilities acquired on property acquisitions	**-**	463
Liabilities settled	**(208)**	(676)
Liabilities extinguished on property dispositions	**(30)**	(203)
Effect of change in rate and estimates	**-**	940
Accretion expense	**223**	347
Decommissioning liabilities, end of period	**$ 12,773**	$ 11,655

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be $17.7 million (December 31, 2011 - $15.9 million). The obligations were calculated using a risk-free interest rate of 2.5% (2011 – 2.5%) and an inflation rate of 2% (2011 – 2%). It is expected that the obligations will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2020 and 2037.

7. Equity instruments

Authorized

Unlimited number of common shares.

Issued

Common Shares	**Shares**	**Stated Value**
Balance - December 31, 2010	166,961	$ 108,122
Issued on exercise of stock options	73	112
Issued on exercise of warrants	3,714	3,425
Normal course issuer bid (note 7(d))	(1,758)	(1,143)
Recognition of tax effect on share issue costs	-	1,692
Balance - December 31, 2011	168,990	$ 112,208
Issued on exercise of stock options	-	-
Issued on exercise of warrants	22,177	20,447
Normal course issuer bid (note 7(d))	(1,792)	(1,243)
Balance – September 30, 2012	**189,375**	**$ 131,412**

Warrants	Number of Warrants and Underlying Shares	Stated Value
Balance – December 31, 2010	26,276	$ 4,520
Exercised	(3,714)	(639)
Expired	-	-
Balance – December 31, 2011	22,562	3,881
Exercised	(22,177)	(3,814)
Expired	(385)	(67)
Balance – September 30, 2012	-	$ -
Total Equity Instruments		**$ 131,412**

a) Stock options

The Company has a floating stock option plan by which the Company may grant options to directors, officers, employees and consultants for up to 10% of common shares outstanding. Each option permits the holder to purchase one common share of the Company at the stated exercise price.

The following tables summarize the status of the Company's stock option plan and the activity during the nine month period ended September 30, 2012 and year ended December 31, 2011:

	Sep 30, 2012		Dec 31, 2011	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Balance - beginning of period	16,283	$ 0.84	15,375	$ 0.84
Granted	1,955	0.93	1,160	0.84
Exercised	-	-	(73)	0.99
Expired/forfeited	(151)	1.35	(179)	0.95
Balance - end of period	18,087	0.84	16,283	0.84
Exercisable - end of period	13,404	$ 0.83	10,293	$ 0.83

Date of Grant	**Number Outstanding at Sep 30, 2012**	**Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Date of Expiry**	**Number Exercisable at Sep 30, 2012**
Jul 16, 2008	**247**	$ 2.00	0.79	Jul 16, 2013	**247**
Sep 4, 2009	**3,000**	0.60	1.93	Sep 4, 2014	**3,000**
Feb 9, 2010	**3,775**	0.88	2.36	Feb 9, 2015	**3,775**
Jun 17, 2010	**295**	1.10	2.71	Jun 17, 2015	**295**
Oct 1, 2010	**550**	0.90	3.00	Oct 1,2015	**412**
Nov 1, 2010	**6,880**	0.85	3.09	Nov 1, 2015	**5,160**
Nov 23, 2010	**225**	0.90	3.15	Nov 23, 2015	**169**
Feb 10, 2011	**60**	1.23	3.36	Feb 10, 2016	**45**
Dec 8, 2011	**1,100**	0.82	4.19	Dec 8, 2016	**275**
Mar 14, 2012	**105**	1.06	4.45	Mar 14, 2017	**26**
Apr 20, 2012	**1,850**	0.92	4.56	Apr 20, 2017	**-**
	18,087	**$ 0.84**	**2.93**		**13,404**

Options vest ¼ every six months, beginning six months from the date of grant.

b) Performance warrants

The following tables summarize the status of the Company's performance warrants and the activity during the nine months ended September 30, 2012 and the year ended December 31, 2011:

	Sep 30, 2012			Dec 31, 2011		
	Number of Performance Warrants		**Exercise Price**	**Number of Performance Warrants**		**Exercise Price**
Balance – beginning of period	4,200	$	0.56	4,200	$	0.56
Granted	-		-	-		-
Exercised	-		-	-		-
Balance – end of period	4,200	$	0.56	4,200	$	0.56
Exercisable – end of period	4,200	$	0.56	4,200	$	0.56

Performance warrants were granted to certain officers and employees on September 4, 2009 for a term of three years, with each performance warrant being exercisable into one common share at a price of $0.56 per performance warrant upon the Company achieving certain targets for growth in net asset value per fully diluted share ("NAV per share") as defined in the performance warrant certificates. With reference to the initial NAV per share calculated as $1.10, ⅓ of the performance warrants shall vest upon an increase in NAV per share of 25%, ⅔ of the performance warrants shall vest upon an increase of NAV per share of 33 ⅓%, and all of the performance warrants shall vest upon an increase in NAV per share of 50%. As at December 31, 2011, the NAV growth targets had been met and all of the performance warrants vested.

On May 24, 2012, the expiry dates of the performance warrants were extended by two years to September 4, 2014.

c) Stock-based compensation expense

The fair values of stock options granted during the nine months ended September 30, 2012 and September 30, 2011 were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Sep 30, 2012	Sep 30, 2011
Risk-free interest rate	**1.5%**	2.3%
Expected volatility	**80%**	86%
Expected life	**4.5 years**	4.0 years
Expected dividend yield	**0%**	0%
Estimated forfeiture rate	**2.4%**	2.4%
Fair value per option	**$0.57**	$0.77

The fair value of the extension to the performance warrants expiry dates during the three and nine months ended September 30, 2012 was estimated to be $0.06 using the Black-Scholes option pricing model with the following assumptions:

	Pre-extension	Post-extension
Risk-free interest rate	**1.4%**	1.4%
Expected volatility	**34%**	39%
Expected life	**0.3 years**	2.0 years
Expected dividend yield	**0%**	0%
Estimated forfeiture rate	**0%**	0%
Fair value per performance warrant	**$0.27**	$0.33

Compensation costs of $481 thousand for the three months ended September 30, 2012 (2011 - $712 thousand) and $1.8 million for the nine months ended September 30, 2012 (2011 - $3.1 million) have been expensed and have resulted in a corresponding increase in contributed surplus in the respective periods.

d) Normal course issuer bid

The Company instituted a normal course issuer bid for the period September 20, 2012 to September 19, 2013, pursuant to which a maximum of 5,000,000 common shares may be acquired during the period. The Company also had a normal course issuer bid for the period September 15, 2011 to September 14, 2012, pursuant to which a maximum of 5,000,000 commons shares could be acquired during the period.

For the three months ended September 30, 2012, the Company acquired and cancelled 910,000 common shares (2011 – 1,117,500) at an average cost of $0.73 (2011 – $0.85) per common share. The excess cost over stated value of $32 thousand (2011 - $216 thousand) was charged to the deficit account.

For the nine months ended September 30, 2012, the Company acquired and cancelled 1,792,000 common shares (2011 – 1,657,500) at an average cost of $0.72 (2011 – $0.92) per common share. The excess cost over stated value of $42 thousand (2011 - $449 thousand) was charged to the deficit account.

At September 30, 2012, a maximum of 5,000,000 common shares may be acquired by the Company under the present normal course issuer bid.

e) Per share amounts

The following table reconciles the denominators used for the basic and diluted net income per share calculations:

	Three months ended		**Nine months ended**	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Basic weighted average shares	**189,800**	169,700	**185,986**	169,328
Effect of dilutive instruments	**1,664**	3,155	**3,857**	11,785
Diluted weighted average shares	**191,464**	172,855	**189,843**	181,113

The calculation of diluted net income per share for the three month period ended September 30, 2012 excludes 15.1 million stock options (2011 – 5.4 million) as the inclusion of these options would have been anti-dilutive.

The calculation of diluted net income per share for the nine month period ended September 30, 2012 excludes 707 thousand stock options (2011 – 337 thousand) as the inclusion of these options would have been anti-dilutive.

8. Finance costs

	Three months ended		**Nine months ended**	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Interest and borrowing costs	**$ 396**	$ 334	**$ 1,216**	$ 499
Accretion of decommissioning liabilities	**76**	99	**223**	266
	$ 472	$ 433	**$ 1,439**	$ 765

9. Income taxes

The current income tax expense of $309 thousand for the three months ended September 30, 2012 (2011 - $207 thousand) and $866 thousand for the nine months ended September 30, 2012 (2011 – $420 thousand) relates to the Saskatchewan Resource Surcharge on the Company's Saskatchewan production revenue.

The following is a summary of the Company's estimated tax pools as at September 30, 2012:

Classification		**Amount**
Non-capital loss carry-forwards	**$**	**79,983**
Canadian development expenditures		**71,200**
Capital cost allowance		**36,766**
Canadian oil and gas property expenditures		**34,683**
Scientific research and development		**18,899**
Canadian exploration expenditures		**9,061**
Share issue costs		**1,806**
Other		**222**
	$	**252,620**

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

Year		**Amount**
2013	**$**	**4,672**
2014		**1,898**
2022 – 2032		**73,413**
Total non-capital loss carry-forwards	**$**	**79,983**

10. Supplemental cash flow information

	Three months ended		**Nine months ended**	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Changes in non-cash working capital related to:				
Accounts receivable	**$ (2,062)**	$ (3,672)	$ **569**	$ (2,830)
Deposits and prepaid expenses	**(98)**	372	**(314)**	17
Accounts payable and accrued liabilities	**6,984**	(1,142)	**11,711**	4,068
	$ 4,824	$ (4,442)	$ **11,966**	$ 1,255

	Three months ended		**Nine months ended**	
	Sep 30, 2012	Sep 30, 2011	**Sep 30, 2012**	Sep 30, 2011
Changes in non-cash working capital related to:				
Operating activities	**$ (748)**	$ (5,958)	$ **3,621**	$ (6,815)
Investing activities	**5,572**	1,516	**8,345**	8,070
	$ 4,824	$ (4,442)	$ **11,966**	$ 1,255
Interest and borrowing costs paid	**$ 396**	$ 334	$ **1,216**	$ 499
Income taxes paid	**$ 269**	$ 124	$ **1,159**	$ 238

11. Financial instruments and risk management

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 counterparty 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. The Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Two of these marketers owed the Company $6.7 million at September 30, 2012, which was subsequently received. 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 Statement of Financial Position. During the period ended September 30, 2012, the Company has a provision for doubtful accounts in the amount of $175 thousand (December 31, 2011 – $175 thousand). Although an allowance has been provided, the Company will continue to pursue collection of the balance. The allowance may be adjusted if circumstances or events change. When determining whether past due accounts are collectible, the Company factors in the past credit history of the counter parties.

As at September 30, 2012, the Company's accounts receivable were comprised of the following:

Sales revenue receivable	$	6,911
Joint interest receivable		717
Cash call receivable		1
Accrued and other receivable		661
Total accounts receivable	$	8,290

As at September 30, 2012, 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
$ 8,290	$ 7,630	$ 10	$ 20	$ 630

The Company considers all amounts greater than 90 days as past due and collectible.

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 September 30, 2012, the Company's accounts payable and accrued liabilities were $19.7 million, all of which are due for payment within normal terms of trade, which are generally between 30 and 60 days. The Company has a $65 million revolving operating demand loan to manage its liquidity and settlement of liabilities, of which $50.6 million has been drawn as at September 30, 2012.

The Company's financial liabilities at September 30, 2012 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
$ 19,653	$ 15,711	$ 2,455	$ 848	$ 639

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 notes 5 and 13.

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 and the impact of such exchange rate fluctuations cannot be accurately quantified. The Company had no forward exchange rate contracts in place, nor any working capital items denominated in foreign currencies, as at or during the three and nine months ended September 30, 2012.

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 three and nine months ended September 30, 2012.

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 attempts to mitigate this risk by utilizing short-term bankers' acceptances to lock in a portion of its bank debt at fixed rates.

For the nine months ended September 30, 2012, a 100 basis points change to the effective interest rate would have an impact of $379 thousand on cash flow from operating activities and $281 thousand on net income.

12. Capital disclosures

The Company considers its capital structure to consist of working capital, including 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 to raise additional funds and adjusting its capital spending to manage current and projected debt levels. 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 was no change in the Company's approach to capital management during the nine months ended September 30, 2012.

The Company monitors its capital structure using primarily the non-IFRS measurement ratio of net debt to funds flow from operations, annualized from the most recent quarter. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus net working capital, divided by annualized funds flow from operations. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital and decommissioning expenditures from the Company's most recent quarter, multiplied by four. The objective is to maintain this ratio below 1.5:1, although this ratio may temporarily increase at certain times as a result of acquisitions or other significant capital expenditures for which the full quarterly effect of funds flow has not yet been accounted for. As at September 30, 2012 the ratio of net debt to funds flow from operations was 1.4:1 calculated as follows:

		Three months ended Sep 30, 2012
Current assets	**$**	**9,014**
Current liabilities		**(70,209)**
Net debt	**$**	**(61,195)**
Cash flow from operations	**$**	**9,962**
Changes in non-cash working capital items		**748**
Decommissioning expenditures		**129**
Funds flow from operations		**10,839**
Annualized funds flow from operations	**$**	**43,356**
Net debt to annualized funds flow from operations		**1.4:1**

The Company's share capital is not subject to any external restrictions; however its credit facility is subject to periodic review (note 5). 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 revolving operating demand loan may be added to current assets. As at September 30, 2012, this working capital ratio was 1.2:1.

13. Commitments

As at September 30, 2012, the Company had commitments as follows:

	2012	**2013**	**2014**	**Thereafter**
Office lease	$ 161	$ 592	$ -	$ -