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 and nine months ended September 30, 2011, and Novus' audited financial statements as at and for the year ended December 31, 2010. The accompanying financial statements of Novus have been prepared by management and approved by the Company's Audit Committee. The financial data presented herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically IFRS 1, "First-time Adoption of International Financial Reporting Standards", and International Accounting Standard 34, "Interim Financial Reporting". Prior to January 1, 2011, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). In accordance with IFRS 1, the Company's transition date to IFRS was January 1, 2010, and therefore the comparative information for 2010 has been prepared in accordance with Novus' IFRS policies. Certain amounts in prior periods have been reclassified to conform to the current period's IFRS presentation format.

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 21, 2011.

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, operating netbacks and net debt. These measures have no standardized meanings, are not defined by IFRS or Canadian GAAP, and accordingly are referred to as non-GAAP measures. 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 the Company's funds flow from (used in) operations may not be comparable to the same as reported by other companies.

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

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Cash provided by (used in) operating activities	**$ 1,700**	$ (609)	**$ 6,784**	$ (1,228)
Changes in non-cash working capital items	**5,958**	2,632	**6,815**	2,451
Decommissioning expenditures	**275**	24	**480**	28
Funds flow from (used in) operations	**$ 7,933**	$ 2,047	**$ 14,079**	$ 1,251

Operating netbacks are calculated by deducting royalties, field operations and transportation and marketing expenses from production revenue. 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. 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 IFRS or Canadian GAAP as an indicator of the Company's performance or liquidity.

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

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

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, 2011 was 2,159 boe/d, which was 61% greater than the 1,339 boe/d recorded in the quarter ended September 30, 2010. For the nine month period ending September 30, 2011, the daily average production was 1,676 boe/d, a 74% increase from the 961 boe/d in the first nine months of 2010. The higher production in 2011 is largely a reflection of the drilling program completed in latter half of 2010 and continued throughout 2011.

	Three months ended		Nine months ended	
Average production	**Sep 30, 2011**	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Oil & liquids (bbls/d)	**1,730**	793	**1,207**	465
Natural gas (mcf/d)	**2,571**	3,278	**2,816**	2,978
Oil equivalent (boe/d)	**2,159**	1,339	**1,676**	961

Production in the third quarter of 2011 increased from the 1,318 boe/d in the second quarter of 2011 as result of new production derived from the active second and third quarter drilling program.

Revenue and pricing

Gross production revenue for the three and nine months ended September 30, 2011 was $14.79 million and $31.95 million respectively, versus $6.16 million and $12.23 million for the three and nine months ended September 30, 2010. The increase in revenue is due to increased production as well as a significant recovery in oil prices.

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, 2011**	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Oil & liquids	$ **13,898**	$ 5,066	$ **28,942**	$ 8,822
Natural gas	**895**	1,089	**3,008**	3,408
Total	$ **14,793**	$ 6,155	$ **31,950**	$ 12,230

	Three months ended		Nine months ended	
Sales price per unit	**Sep 30, 2011**	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Oil & liquids ($/bbl)	**87.32**	69.44	**87.87**	69.49
Natural gas ($/mcf)	**3.79**	3.61	**3.91**	4.19
Blended ($/boe)	**74.49**	49.95	**69.84**	46.60

Royalties

Royalties, which include crown, freehold and overriding royalties paid on oil, liquids and natural gas production, amounted to $1.68 million during the third quarter of 2011 compared to $914 thousand during the same quarter in 2010. For the nine months ended September 30, 2011, total royalties were $4.15 million compared to $2.50 million for the same period in 2010.

As a percentage of production, royalties decreased to 11% in the most recent quarter from 15% a year ago. The decrease is primarily the result of increased production from the Company's Saskatchewan crown properties, which generally carry a lower average royalty rate due to the Saskatchewan royalty incentive program on production from new wells.

	Three months ended		Nine months ended	
Royalties	**Sep 30, 2011**	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Total	**$ 1,681**	$ 914	**$ 4,154**	$ 2,497
Per boe	**$ 8.47**	$ 7.42	**$ 9.08**	$ 9.51
% of revenue	**11%**	15%	**13%**	20%

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 13% in 2011 and 2012.

Field Operations

Field operations for the quarter ended September 30, 2011 amounted to $2.72 million, or $13.69/boe, compared to $1.87 million, or $15.15/boe, during the quarter ended September 30, 2010. For the nine month period ended September 30, 2011, field operations were $7.2 million ($15.75/boe) compared to $4.11 million ($15.66/boe) for the same period in 2010.

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30,2010	**Sep 30, 2011**	Sep 30, 2010
Field operations	$ **2,720**	$ 1,866	$ **7,204**	$ 4,110
Per boe	$ **13.69**	$ 15.15	$ **15.75**	$ 15.66

Field operations in the third quarter of 2011 fell from the $16.30/boe recorded in the second quarter of 2011 due to fewer workovers and greater operational efficiencies.

Transportation and marketing costs

Total transportation and marketing costs for the three months ended September 30, 2011 amounted to $505 thousand, or $2.55/boe, compared to $148 thousand or $1.20/boe, during the quarter ended September 30, 2010. For the nine month period ended September 30, 2011, transportation and marketing costs were $1.15 million ($2.52/boe) compared to $370 thousand ($1.41/boe) for the same period in 2010. The increases in 2011 reflect the Company's continued increased weighting to oil production, which has higher transportation costs than does the Company's gas production.

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30,2010	**Sep 30, 2011**	Sep 30, 2010
Transportation	$ **505**	$ 148	$ **1,153**	$ 370
Per boe	$ **2.55**	$ 1.20	$ **2.52**	$ 1.41

Operating netbacks

The following table summarizes the Company's operating netbacks. Operating netback is a non-GAAP 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, 2011**	Sep 30,2010	**Sep 30, 2011**	Sep 30,2010
Revenue	$ **74.49**	$ 49.95	$ **69.84**	$ 46.60
Royalties	**(8.47)**	$ (7.42)	$ **(9.08)**	$ (9.51)
Field operations	**(13.69)**	(15.15)	**(15.75)**	(15.66)
Transportation and marketing	**(2.55)**	(1.20)	**(2.52)**	(1.41)
Operating netbacks	$ **49.78**	$ 26.18	$ **42.49**	$ 20.02

The operating netback for the three months ended September 30, 2011 was $49.78/boe compared to $26.18/boe in the third quarter of 2010. For the nine month period ended September 30, 2011, the netback was $42.49/boe compared to $20.02 in the same period in 2010. The higher netbacks in 2011 are largely the result of a shift to a proportionately higher oil production base, as the price and Novus' weighting of this commodity improved considerably compared to 2010.

General and administrative expenses

Total general and administrative expenses during the third quarter of 2011 amounted to $1.38 million compared to $1.04 million a year ago. For the first nine months of 2011, $4.35 million of general and administrative expenses were incurred compared to $3.54 million in the same period last year. Going

forward, while the Company anticipates 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 expenditures is a new line item under IFRS, and includes such amounts as unsuccessful drilling costs, pre-license expenditures and carrying costs on non-producing lands. Under Canadian GAAP, the Company previously capitalized and depleted these expenditures as part of its property and equipment account. Exploration and evaluation expenses for the three and nine months ended September 30, 2011 were $34 thousand and $91 thousand respectively, compared to the restated $30 thousand and $61 thousand for the three and nine months ended September 30, 2010 respectively.

Finance costs

Under IFRS, finance costs include both financing and accretion costs. The financing component includes interest, commitment fees, standby charges, and other expenses related to the Company's credit facilities and borrowings.

The breakdown of these costs is as follows:

	Three months ended		Nine months ended	
Finance costs	**Sep 30, 2011**	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Borrowing costs	**$ 334**	$ 24	**$ 499**	$ 24
Accretion of decommissioning liabilities	**99**	68	**266**	171
Total	**$ 433**	$ 92	**$ 765**	$ 195

	Three months ended		Nine months ended	
Finance costs per boe	**Sep 30, 2011**	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Borrowing costs	**$ 1.69**	$ 0.19	**$ 1.09**	$ 0.09
Accretion of decommissioning liabilities	**0.50**	0.55	**0.58**	0.65
Total ($/boe)	**$ 2.19**	$ 0.74	**$ 1.67**	$ 0.74

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 2011, $712 thousand of stock-based compensation expense was recognized, which compares to $579 thousand in the third quarter of 2010. For the nine month period ending September 30, 2011, $3.05 million of stock-based compensation expense was recognized, which compares to $1.94 million during the comparative period of 2010. The increase stems from expensing a portion of the options which were granted in the fourth quarter of 2010.

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 three and nine months periods ended September 30, 2011 amounted to $4.4 million ($22.13/boe) and $10.38 million ($22.68/boe), respectively versus $6.21 million ($50.37/boe) and $11.04 million ($42.08/boe) for the three and nine month periods ended September 30, 2010. The higher charge in 2010 reflects impairments in the value of the Company's property and equipment in the first nine months 2010.

No impairment of assets was recognized for the three and nine months periods ended September 30, 2011, however, for the three and nine months periods ended September 30, 2010, under IFRS, the Company

recorded $1.98 million and $3.72 million worth of impairments respectively over four different Cash Generating Units ("CGUs"). These impairments arose as a result of lower commodity prices and values on certain natural gas producing properties and a reduction in reserves and value for one petroleum producing property in Northwest Alberta.

	Three months ended		Nine months ended	
Depletion and depreciation	**Sep 30, 2011**	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Depletion	$ **4,352**	$ 4,192	$ **10,248**	$ 7,211
Depreciation	**43**	38	**130**	108
Impairment	**-**	1,977	**-**	3,724
Total	$ **4,395**	$ 6,207	$ **10,378**	$ 11,043
Total ($/boe)	$ **22.13**	$ 50.37	$ **22.68**	$ 42.08

Under IFRS, total impairments during 2010 amounted to $7.61 million.

Income taxes

The $207 thousand and $420 thousand charge for current income taxes during the three and nine month periods ended September 30, 2011 is the result of the Saskatchewan Resource Surcharge on the Company's Saskatchewan production revenue. This is up from the $89 thousand and $139 thousand recorded in the comparative periods of 2010, 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 Septmber 30, 2011:

Classification		**Amount**
Canadian development expenditures	**$**	**70,835**
Non-capital loss carry-forwards		**65,891**
Canadian oil and gas property expenditures		**38,462**
Capital cost allowance		**26,263**
Canadian exploration expenditures		**20,558**
Scientific research and development		**18,899**
Share issue costs		**3,269**
Other		**239**
	$	**244,416**

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

Year		**Amount**
2013	**$**	**4,672**
2014		**1,898**
2022 – 2031		**59,321**
Total non-capital loss carry-forwards	**$**	**65,891**

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

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Net income (loss)	$ **3,460**	$ (4,807)	$ **1,368**	$ (11,142)
per share - basic	**0.02**	(0.03)	**0.01**	(0.07)
per share - diluted	**0.02**	(0.03)	**0.01**	(0.07)
Funds flow from (used in) operations [(1)]	**7,933**	2,047	**14,079**	1,251
per share - basic	**0.05**	0.01	**0.08**	0.01
per share - diluted	**0.05**	0.01	**0.08**	0.01
Cash flow from (used in) operations	**1,700**	(609)	**6,784**	(1,228)
per share - basic	**0.01**	-	**0.04**	(0.01)
per share - diluted	**0.01**	-	**0.04**	(0.01)
Weighted average shares outstanding				
Basic	**169,700**	166,373	**169,328**	149,618
Diluted	**172,855**	166,373	**181,113**	149,618

(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 IFRS or Canadian 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 cash provided by (used in) operating activities 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 third quarter of 2011, $31.29 million of net cash capital expenditures were recorded compared to $10.47 million during the same quarter of 2010. During the most recent quarter, the Company drilled and completed 30 wells (29.8 net) and placed 35 wells (34.8 net) production. The Company also entered into two separate Purchase and Sale Agreements, in which the Company bolstered its interests in certain leases in the Dodsland area to 100%, and sold 50% non-operated interests in other leases. A breakdown of the cash capital expenditures is outlined below:

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Land acquisition/retention	**$ 331**	$ 135	**$ 2,533**	$ 4,640
Geological, geophysical and seismic	**-**	-	**-**	365
Drilling and completions	**24,795**	6,959	**47,334**	23,797
Drilling royalty credits	**-**	(216)	**-**	(483)
Equipping and tie-ins	**6,268**	3,418	**11,892**	4,707
Property acquisitions	**2,786**	125	**2,786**	3,260
Property dispositions	**(3,000)**	-	**(3,250)**	-
Furniture and fixtures	**114**	48	**131**	246
Total expenditures	**$ 31,294**	$ 10,469	**$ 61,426**	$ 36,532

Non-cash and business combination transactions are as follows:

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Land acquisition/farm-in	**$ -**	$ 635	**$ -**	$ 1,272
Business combinations	**-**	-	**-**	11,178
Non-cash expenditures	**$ -**	$ 635	**$ -**	$ 12,450

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 were no changes in the Company's approach to capital management during the nine months ended September 30, 2011.

The Company monitors its capital structure using primarily the non-GAAP measurement ratio of net debt to funds flow from operations, annualized from the most recent quarter. 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, 2011 the ratio of net debt to funds flow from operations was 1.5:1 calculated as follows:

		Three months ended Sep 30, 2011
Current assets	**$**	**8,500**
Current liabilities		**(56,858)**
Net debt		**(48,358)**
Cash flow from operations	**$**	**1,700**
Changes in non-cash working capital items		**5,958**
Decommissioning expenditures		**275**
Funds flow from operations		**7,933**
Annualized funds flow from operations		**31,732**
Net debt to annualized funds flow from operations		**1.5:1**

At September 30, 2011, this ratio is at the top end of the 1.5:1 objective due to the intensive capital program resulting in an increased debt load being carried in advance of new production coming on stream. The ratio is expected to contract by year end as the pace of capital activity slows, and funds flow is realized from new production.

The Company's share capital is not subject to any external restrictions; however its credit facilities are subject to periodic reviews. The credit facilities 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 facilities also contain 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, 2011, this ratio was 1.7:1.

Equity instruments

During the first nine months of 2011, the Company issued 3,684,400 common shares on the exercise of share purchase warrants; 72,500 common shares on the exercise of incentive stock options; and repurchased and cancelled 1,657,500 common shares pursuant to normal course issuer bids.

As at September 30, 2011, the Company had the following equity instruments outstanding:

Common shares outstanding	169,060
Issuable upon the exercise of outstanding share purchase warrants	22,592
Issuable upon the exercise of outstanding stock options	15,362
Issuable upon the exercise of outstanding performance warrants	4,200
Total equity instruments outstanding	211,214

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

Date of Issue	Number of Warrants	Exercise Price	Date of Expiry
Mar 31, 2009	22,592	$ 0.75	Mar 31, 2012

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	$ 3.00	Feb 12, 2012
Jul 16, 2008	247	$ 2.00	Jul 16, 2013
Sep 4, 2009	3,000	$ 0.60	Sep 4, 2014
Feb 9, 2010	3,850	$ 0.88	Feb 9, 2015
Jun 17, 2010	400	$ 1.10	Jun 17, 2015
Oct 1, 2010	550	$ 0.90	Oct 1, 2015
Nov 1, 2010	7,000	$ 0.85	Nov 1, 2015
Nov 23, 2010	225	$ 0.90	Nov 23, 2015
Feb 10, 2011	60	$ 1.23	Feb 10, 2016
	15,362	$ 0.84	

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%. The performance warrants will also vest upon a change of control of the Company. As of September 30, 2011, none of the performance warrants have vested.

On September 12, 2011, the Company's Normal Course Issuer Bid ("NCIB") expired. For the period September 15, 2011 through September 14, 2012, 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 168,960,312 common shares outstanding. A further 22,591,600 common shares are reserved for issuance pursuant to the exercise of outstanding shares purchase warrants; 15,183,250 common shares pursuant to the exercise of outstanding stock options; and 4,200,000 common shares pursuant to the exercise of outstanding performance warrants.

Working capital and bank debt

At September 30, 2011, the Company had a working capital deficit of $48.36 million compared to $1.84 million at December 31, 2010. Components of the working capital figures are contained in the following table:

	Sep 30, 2011	Dec 31, 2010
Cash and cash equivalents	**$ -**	$ 5,063
Accounts receivable	**7,964**	5,134
Deposits and prepaid expenses	**536**	553
Accounts payable and accrued liabilities	**(16,658)**	(12,590)
Bank debt	**(40,200)**	-
Total working capital (deficit)	**$ (48,358)**	$ (1,840)

As at the date of this MD&A, the Company has available a $50 million revolving operating demand loan and a $10 million acquisition/development demand loan, the latter of which is fully drawn. The loans are 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%, while interest on the acquisition/development demand loan is prime plus 1.25%. The credit facilities are 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, 2011, this ratio was 1.7:1.

The credit facility is subject to periodic review by the bank, with the next review scheduled on or before January 1, 2012.

COMMITMENTS

As at September 30, 2011, the Company had commitments as follows:

	2011	**2012**	**2013**	**Thereafter**
Office Lease	$ 191	$ 632	$ 579	$ -

SUMMARY OF QUARTERLY RESULTS

	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 (used in) operations	7,933	2,938	3,208	2,444
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)	3,912
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	18,609
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

	Three months ended [1]			
	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009
Petroleum and natural gas sales	$ 6,155	$ 3,088	$ 2,987	$ 1,156
Funds flow from (used in) operations	2,047	(711)	(85)	(829)
per share - basic	0.01	-	-	(0.01)
per share - diluted	0.01	-	-	(0.01)
Net income (loss)	(4,807)	(4,498)	(1,837)	(2,233)
per share - basic	(0.03)	(0.03)	(0.01)	(0.04)
per share - diluted	(0.03)	(0.03)	(0.01)	(0.04)
Cash capital expenditures, net	10,469	20,131	5,932	10,034
Average daily production (boe/d)	1,339	774	710	327
Average selling price ($/boe)	49.95	43.81	46.76	38.47
Operating Netback ($/boe)	26.18	10.21	20.46	9.60
Weighted average shares - basic	166,373	153,288	128,781	60,687
Weighted average shares - diluted	166,373	153,288	128,781	60,687

(1) The Company's IFRS transition date was January 1, 2010; therefore, the 2009 figures have not been restated and are in accordance with Canadian GAAP.

Production for the last quarter of 2009 was adversely impacted by shut-in oil production at Cardiff and Wembley as well as severe cold weather curtailing gas production during December. Volumes increased in the first quarter of 2010 due to wells drilled in the previous quarter coming on stream, three full months of production resulting from the December 2009 business combination with Ammonite Energy Ltd and one month of production from the two March 2010 business combinations. Increases for the second quarter of 2010 were due to new production from wells drilled in the first and second quarters of 2010 and a full quarter of production from the 2010 business combinations. Increases for the third and fourth quarters of 2010 were due to the production from the new wells drilled, completed, and placed on-stream in an ongoing fashion. 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 quarter of 2011 as wells drilled in the second and third quarters were brought on stream.

Production revenue is a function of sales volumes and commodity prices. While oil prices continued their recovery in 2010, gas prices slowly declined. Most of the Company's added volumes in the third and fourth quarters of 2010 were from oil, which improved the revenue figure. Oil prices continued to rise in the nine months of 2011, partially offsetting the impact of lower volumes in the second quarter and adding to the effect of higher volumes in the third quarter.

Funds flow from (used in) operations starts with production revenue and is affected by royalties, field operations, transportation and marketing costs, general and administrative expenditures, certain finance costs, transaction costs and current taxes. For the last quarter of 2009, funds flow used in operations was impacted by year-end administrative costs. In the first quarter of 2010, increased production volumes, coupled with higher commodity prices and greater operational efficiencies, resulted in improved funds flow figures. A combination of lower commodity prices, higher royalties, and increased operating costs adversely affected flow funds in the second quarter, but the third quarter funds flow figure improved dramatically due to the increased revenue, and this continued on through the fourth quarter. For the first nine months of 2011, funds flow from operations generally followed the increase in production revenue, with the third quarter figure achieving a higher proportionate increase due to lower royalties and operating costs as a percentage of the sales price.

The net loss in the last quarter of 2009 was largely due to higher non-cash items, such as depletion charges and stock-based compensation costs. The net loss in the second and third quarters of 2010 included impairment write-downs, while the turnaround 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 largest components of the cash capital expenditures in the last quarter of 2009 were asset acquisitions of $7.35 million and the drilling of seven wells (4.5 net), primarily at Dodsland. The 2010 figures include the drilling of 50 wells (42.6 net), of which 43 (37.6 net) were horizontal wells in the greater Dodsland area. The 2010 second quarter figure includes undeveloped land and property acquisitions of $4.48 million and $2.21 million respectively, while the fourth quarter capital program included the construction of two batteries in the greater Dodsland area. The cash capital expenditure figures do not include non-cash transactions and business combinations. 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 and Bakken plays in Saskatchewan. These activities continued in the third quarter, with most of the wells getting tied-in and placed on production.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at September 30, 2011 consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and bank debt. The fair value of these instruments approximates their carrying value due to their short-term nature.

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. 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. 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 nine months ended September 30, 2011, 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, 2011, the Company's accounts receivable were comprised of the following:

Sales revenue receivable	$	5,878
Joint interest receivable		1,505
Cash call receivable		1
Accrued and other receivable		580
Total accounts receivable	$	7,964

As at September 30, 2011, the Company's accounts receivables are aged as follows:

	Total		0 to 30 days		31 to 60 days		61 to 90 days		Greater than 90 days
$	7,964	$	6,298	$	555	$	100	$	1,011

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

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 September 30, 2011, the Company's accounts payable and accrued liabilities were $16.7 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, 2011, the Company has a $50 million revolving operating demand loan to manage its liquidity and settlement of liabilities.

As at September 30, 2011, the Company's accounts payable and accrued liabilities are aged as follows:

	Total		0 to 30 days		31 to 60 days		61 to 90 days		Greater than 90 days
$	16,658	$	11,557	$	3,230	$	565	$	1,306

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 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 months and nine months ended September 30, 2011.

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, 2011.

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 three and nine months ended September 30, 2011.

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 managing its debt, 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 International Financial Reporting Standards ("IFRS")

The Company prepared its June 30, 2011 interim financial statements in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards" and with IAS 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its financial statements in accordance with Canadian GAAP.

The Company's IFRS accounting policies are described in Note 3 to the interim financial statements. For a full disclosure of the reconciliation between the Company's 2010 Canadian GAAP financial statements and the 2010 IFRS financial statements, refer to Note 16 of the September 30, 2011 condensed interim financial statements.

Following is a discussion of the significant accounting policy changes for Novus:

i) Exploration and evaluation ("E&E") assets

Upon transition to IRFS, the Company has reclassified E&E assets that were included in property and equipment on the balance sheet. E&E assets consist of the book value of undeveloped land, seismic data and exploratory drilling and completions that relate to exploration properties. Novus does not deplete or amortize these assets. Impairment tests are conducted at least annually or when indicators of impairment exist.

On transition, this resulted in the recognition of $4.9 million of E&E assets with a corresponding decrease in property and equipment. At December 31, 2010, the reclassification was $11.78 million.

ii) Depletion expense

The Company has elected to deplete its property and equipment assets on a unit of production basis using both proved and probable reserves, which is considered to be a fair representation of the underlying value. Assets are grouped into units of accounts and separate depletion calculations are preformed for each unit of account. Under the previous GAAP, the assets were grouped into a single full cost pool and depleted on a unit of production method using proved reserves. On transition, the IFRS 1 exemption was used to allocate the previous net book value to the units of account using proved plus probable reserve values.

For 2010, the depletion expense was reduced by $4.99 million.

iii) Impairment

Under the previous GAAP, a ceiling test was conducted at each balance sheet date whereby the fair value the assets was compared to the book value. Under IFRS, impairment tests of property and equipment are performed for each CGU, and impairments may be recovered in future periods if it is determined that the impairment has decreased or no longer exists. Novus aligned its CGUs on a geographic and operational base, grouping like assets into several CGUs. On transition, impairment existed and the goodwill arising from a previous business combination was derecognized. During 2010, an impairment of $7.61 million was recorded on four CGUs and the underlying asset carrying values were reduced accordingly.

iv) Decommissioning liabilities

Novus' decommissioning liabilities (asset retirement obligations under previous GAAP) have increased 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, future changes in the discount rate will affect the entire obligation. The obligation under IFRS is measured as the best estimate of the expenditures to be incurred and requires that the obligation be re-measured using period end risk-free discount rates.

On transition, the Company used a risk free-rate of 4% which resulted in an increase to the obligation of $1.23 million and a corresponding adjustment to opening deficit. During 2010, business combinations, asset purchases and drilling activities were re-measured using a 4% risk-free rate which resulted in an additional $1.75 million obligation compared to previous GAAP.

The change in discount rate has also resulted in a decrease of accretion expense for 2010 of $111 thousand.

Recent Accounting Pronouncements

Financial Instruments

The 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, 2013. However, the IASB has published an exposure draft which proposes to extend the mandatory effective date to January 1, 2015. There will be no significant impact to the Company upon implementation of the published 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 11, "Joint Arrangements", IFRS 12, "Disclosures of Interest in Other Entities" 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.

Presentation of Items of Other Comprehensive Income

In June 2011, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" requiring corporations to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. Retrospective application of this amendment is effective for fiscal years beginning on or after July 1, 2012, with earlier adoption permitted. There will be no significant impact to the Company upon implementation of the amended standard.

CURRENT ECONOMIC CONDITIONS AND 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 fluctuations.

A second 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 Organization of the Petroleum Exporting Countries ("OPEC") 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 slow economy in the United States.

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.

A third 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 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.

Novus Energy Inc
Condensed Interim Financial Statements
September 30, 2011
(unaudited)

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

($CAD, thousands)	Notes	**Sep 30, 2011**	Dec 31, 2010	Jan 1, 2010 (Note 16)
ASSETS				
Current assets				
Cash and cash equivalents		**$ -**	$ 5,063	$ 22,143
Accounts receivable		**7,964**	5,134	2,512
Deposits and prepaid expenses		**536**	553	457
		8,500	10,750	25,112
Exploration and evaluation	5	**13,751**	11,779	4,900
Property and equipment	6	**138,557**	86,196	40,487
Deferred income taxes	11	**16,663**	16,663	4,223
		$ 177,471	$ 125,388	$ 74,722
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		**$ 16,658**	$ 12,590	$ 5,674
Bank debt	7	**40,200**	-	-
		56,858	12,590	5,674
Decommissioning liabilities	8	**10,262**	8,174	3,619
		67,120	20,764	9,293
Shareholders' Equity				
Equity instruments	9	**114,440**	112,642	158,947
Contributed surplus		**11,823**	8,813	3,600
Deficit	9(h)	**(15,912)**	(16,831)	(97,118)
		110,351	104,624	65,429
		$ 177,471	$ 125,388	$ 74,722

Commitments – note 15

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 (Loss) and Comprehensive Income (Loss)

(unaudited)

($CAD, thousands, except per share amounts)	Notes	**Three month period ended** **Sep 30, 2011**	Sep 30, 2010 (Note 16)	**Nine month period ended** **Sep 30, 2011**	Sep 30, 2010 (Note 16)
REVENUE					
Production revenues		$ **14,793**	$ 6,155	$ **31,950**	$ 12,230
Royalties		**(1,681)**	(914)	**(4,154)**	(2,497)
		13,112	5,241	**27,796**	9,733
EXPENSES					
Field operations		**2,720**	1,866	**7,204**	4,110
Transportation and marketing		**505**	148	**1,153**	370
General and administrative		**1,379**	1,037	**4,350**	3,541
Exploration and evaluation		**34**	30	**91**	61
Transaction costs	4	**-**	-	**-**	237
Stock-based compensation	9(g)	**712**	579	**3,050**	1,937
Depletion and depreciation	6	**4,395**	6,207	**10,378**	11,043
		9,745	9,867	**26,226**	21,299
Income (loss) from operations		**3,367**	(4,626)	**1,570**	(11,566)
Other income (loss)					
Finance costs	10	**(433)**	(92)	**(765)**	(195)
Gain on sale of property		**733**	-	**983**	-
		300	(92)	**218**	(195)
Income (loss) before income taxes		**3,667**	(4,718)	**1,788**	(11,761)
Current	11	**207**	89	**420**	139
Deferred (recovery)	4	**-**	-	**-**	(758)
		207	89	**420**	(619)
Net income (loss) and comprehensive income (loss) for the period		$ **3,460**	$ (4,807)	$ **1,368**	$ (11,142)
Net income (loss) and comprehensive income (loss) per share					
Basic and diluted	9(j)	$ **0.02**	$ (0.03)	$ **0.01**	$ (0.07)

See accompanying notes.

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

($CAD, thousands)	Notes	Three month period ended **Sep 30, 2011**	Sep 30, 2010	Nine month period ended **Sep 30, 2011**	Sep 30, 2010
Equity instruments	9				
Common shares					
Balance – beginning of period		$ **111,194**	$ 106,859	$ **108,122**	$ 152,046
Issued for cash		**-**	-	**-**	25,003
Issued on exercise of stock options		**-**	-	**112**	-
Issued on exercise of warrants		**91**	-	**3,398**	1,313
Issued on business combination		**-**	-	**-**	16,986
Issued for farm-in agreement		**-**	-	**-**	286
Issued for asset purchases		**-**	635	**-**	986
Normal course issuer bid	9(i)	**(731)**	-	**(1,078)**	-
Issue costs		**-**	(6)	**-**	(1,578)
Reduction of stated capital	9(h)	**-**	-	**-**	(87,554)
Balance – end of period		$ **110,554**	$ 107,488	$ **110,554**	$ 107,488
Warrants	9(d)				
Balance – beginning of period		$ **3,903**	$ 6,653	$ **4,520**	$ 6,901
Exercised		**(17)**	-	**(634)**	(245)
Expired		**-**	(2,128)	**-**	(2,131)
Balance – end of period		$ **3,886**	$ 4,525	$ **3,886**	$ 4,525
Total equity instruments		$ **114,440**	$ 112,013	$ **114,440**	$ 112,013
Contributed surplus					
Stock-based compensation					
Balance – beginning of period		$ **7,420**	$ 3,399	$ **5,122**	$ 2,041
Stock-based compensation expense	9(g)	**712**	579	**3,050**	1,937
Exercise of stock options		**-**	-	**(40)**	-
Balance – end of period		$ **8,132**	$ 3,978	$ **8,132**	$ 3,978
Warrants					
Balance – beginning of period		$ **3,691**	$ 1,562	$ **3,691**	$ 1,559
Expiry of warrants		**-**	2,128	**-**	2,131
Balance – end of period		$ **3,691**	$ 3,690	$ **3,691**	$ 3,690
Total contributed surplus		$ **11,823**	$ 7,668	$ **11,823**	$ 7,668
Deficit					
Balance – beginning of period		$ **(19,156)**	$ (15,899)	$ **(16,831)**	$ (97,118)
Net income (loss) for the period		**3,460**	(4,807)	**1,368**	(11,142)
Excess cost over stated value on normal course issuer bid purchases	9(i)	**(216)**	-	**(449)**	-
Reduction of stated capital	9(h)	**-**	-	**-**	87,554
Balance – end of period		$ **(15,912)**	$ (20,706)	$ **(15,912)**	$ (20,706)
Total shareholders' equity		**$ 110,351**	**$** 98,975	**$ 110,351**	**$** 98,975

See accompanying notes.

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

($CAD, thousands)	Notes	Three month period ended **Sep 30, 2011**	Sep 30, 2010 (Note 16)	Nine month period ended **Sep 30, 2011**	Sep 30, 2010 (Note 16)
CASH PROVIDED BY (USED IN)					
OPERATING ACTIVITIES					
Net income (loss) for the period		$ **3,460**	$ (4,807)	$ **1,368**	$ (11,142)
Non-cash and other items:					
Stock-based compensation		**712**	579	**3,050**	1,937
Depletion and depreciation		**4,395**	6,207	**10,378**	11,043
Gain on sale of property		**(733)**	-	**(983)**	-
Finance costs		**99**	68	**266**	171
Deferred income taxes (recovery)		**-**	-	**-**	(758)
Decommissioning expenditures		**(275)**	(24)	**(480)**	(28)
Change in non-cash working capital	12	**(5,958)**	(2,632)	**(6,815)**	(2,451)
		1,700	(609)	**6,784**	(1,228)
FINANCING ACTIVITIES					
Proceeds from bank debt, net		**28,951**	-	**40,200**	-
Proceeds from issuance of equity instruments, net of issuance costs		**74**	(6)	**2,836**	24,493
Redemption of share capital		**(947)**	-	**(1,527)**	-
Change in non-cash working capital	12	**-**	(159)	**-**	(293)
		28,078	(165)	**41,509**	24,200
INVESTING ACTIVITIES					
Capital expenditures		**(34,294)**	(10,469)	**(64,676)**	(36,532)
Proceeds from sale of property		**3,000**	-	**3,250**	-
Cash paid on business combinations	4	**-**	-	**-**	(1,952)
Cash acquired on business combinations	4	**-**	-	**-**	8,276
Change in non-cash working capital	12	**1,516**	(2,571)	**8,070**	(287)
		(29,778)	(13,040)	**(53,356)**	(30,495)
Decrease in cash and cash equivalents		**-**	(13,814)	**(5,063)**	(7,523)
Cash and cash equivalents, beginning of period		**-**	28,434	**5,063**	22,143
Cash and cash equivalents, end of period		$ **-**	$ 14,620	$ **-**	$ 14,620

See accompanying notes.

Non-cash transactions – notes 4, 9(b) and 9(c).
Supplemental cash flows disclosure – note 12.

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 of behalf of the Board of Directors on November 21, 2011.

2. Basis of preparation

(a) Statement of compliance

In conjunction with the Company's annual audited financial statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011, these condensed interim financial statements present the Company's initial financial results of operations and financial position as at and for the three and nine months ended September 30, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed interim financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Corporation prepared its interim and annual financial statement in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The preparation of these condensed interim financial statements resulted in selected changes to the Company's accounting policies as compared to those disclosed in the Company's annual audited consolidated financial statements for the period ended December 31, 2010 issued under Canadian GAAP. A summary of significant changes to the Company's accounting policies is disclosed in note 16 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the three and nine months ended September 30, 2010, and as at and for the twelve months ended December 31, 2010.

A summary of the Company's significant accounting policies under IFRS is presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in note 16.

The condensed interim financial statements should be read in conjunction with the Company's Canadian GAAP annual audited consolidated financial statements for the year ended December 31, 2010.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

Depletion and valuation of property and equipment

The amounts recorded for depletion and depreciation of property and equipment and the valuation of property and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future petroleum and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Company's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities*. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The determination of Cash Generating Units ("CGUs") requires judgement in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

Valuation of exploration and evaluation assets

The value of exploration and evaluation ("E&E") assets are dependent upon the discovery of economically recoverable reserves which in turn is dependent on future petroleum and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

The decision to transfer assets from E&E to property and equipment is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

Decommissioning liabilities

The value of decommissioning liabilities depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities.

Stock-based compensation

The amounts recorded relating to the fair value of stock options and performance warrants are based on estimates of the future volatility of the Company's share price, expected forfeiture rates, expected lives of the underlying securities, expected dividends, timing and likelihood of performance warrant vesting and other relevant assumptions.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods in these condensed interim financial statements.

(a) Principles of consolidation

For the period January 1, 2010 through November 30, 2010, the financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions are eliminated on consolidation. On December 1, 2010, the Company amalgamated with its subsidiaries.

(b) Business combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

(c) Jointly controlled operations and jointly controlled assets

Many of the Company's petroleum and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The condensed interim financial statements include the Company's share of these jointly controlled assets, the relevant revenue and related costs.

(d) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue.

(e) Exploration and evaluation and property and equipment

(i) *Exploration and evaluation ("E&E")*

Pre-license expenditures incurred before the Company has obtained legal rights to explore an area are expensed.

E&E costs include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights, decommissioning liabilities and technical studies. E&E costs are capitalized as E&E assets when the technical feasibility and commercial viability of extracting petroleum and natural gas reserves have yet to be determined. E&E assets are measured at cost and are not depleted or depreciated. E&E assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

The cost of undeveloped land that expires during the period is charged as additional depletion and depreciation expense.

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. E&E assets are also assessed for impairment upon their reclassification to property and equipment. For the purposes of impairment testing, E&E assets are allocated to the appropriate CGUs.

Exchanges or swaps that involve only E&E assets are accounted for at cost. Any gains or losses from the divestiture of E&E assets are recognized in net income.

(ii) *Property and equipment*

All costs directly associated with the development and production of petroleum and natural gas interests, including directly attributable overhead, administrative expenses and remuneration of production and supervisory personnel, and are capitalized on an area-by-area basis as property and equipment and are measured at cost less accumulated depletion and depreciation and net of impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in net income.

(iii) *Depletion and depreciation*

Petroleum and natural gas interests are depleted on an area-by-area basis using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Other assets, referred to as other corporate assets, are depreciated on a straight line basis at rates approximating their estimated useful lives ranging from three to five years.

(f) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. E&E assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purposes of assessing impairment, E&E assets and property and equipment are grouped into CGUs. Goodwill is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill. E&E assets are tested with the producing CGU for which the activity can be attributed or separately where a producing CGU does not exist for the E&E activity.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued used of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in net income.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

(g) Provisions and contingent liabilities

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(i) *Decommissioning provisions*

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Company's E&E assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the balance sheet date is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated E&E or property and equipment asset and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to Finance costs with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred is recorded as a gain or loss.

The Company recognizes the deferred tax asset regarding the temporary difference on the decommissioning liability and the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

(h) Flow-through shares

From time to time, the Company finances a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. The stated capital recorded on flow-through share issuances is equal to the estimated fair value of the common shares, exclusive of the flow-through component, on the date of issue. The difference between the gross proceeds received and the stated capital recorded is a liability ("flow-through share premium") until qualifying expenditures are incurred. When the expenditures are incurred the resulting deferred tax liability is recorded through income tax expense less the reversal of the flow-through share premium previously reported.

(i) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences and carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry-forward of unused tax losses and unused tax credits can be utilized.

Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, when at the time of the transaction, the initial recognition affects neither the accounting nor taxable profit or loss. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(j) Leases

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for at the commencement of the lease term as finance leases and recorded as property and equipment at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments, together with an offsetting liability. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are accounted for as operating leases and the lease costs are expensed as incurred.

(k) Revenue

Revenue from the production of petroleum and natural gas is recognized when title passes from the Company to the customer. Revenue represents the Company's share, and is shown separately from the royalty obligations to governments and other mineral interest owners. Transportation and marketing costs are reported as a separate expense and are not netted against revenue.

Royalty income is recognized as it accrues in accordance with the terms of the royalty agreements.

(l) Finance income and costs

Finance income, consisting of interest income, is recognized as it accrues in the statement of income, using the effective interest method.

Finance costs comprise interest expense on borrowings, costs relating to the Company's credit facilities, accretion of the discount on decommissioning liabilities and impairment losses recognized on financial assets.

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes a substantial period of time to get ready for use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognized in the statement of income in the period in which they are incurred using the effective interest method.

(m) Stock-based compensation

The Company has stock options and performance warrants as described in notes 9(e) and 9(f). Stock options granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

Stock-based compensation expense for performance warrants is calculated using the Black-Scholes option pricing model and recorded based on the probable outcome of the vesting requirements, with an expense being recognized over the vesting terms of the performance warrants if those terms are probable to be realized. The estimate of this expense is adjusted for subsequent changes in the expected or actual outcome of the vesting requirements and any changes to this expense are recorded in the period of change.

(n) Earnings per share

Earnings per share is calculated by dividing net and comprehensive income or loss by the weighted average number of common shares outstanding during the period. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money warrants, stock options and performance warrants plus the unamortized portion of stock-based compensation are used to purchase common shares at average market prices.

(o) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost" as defined by IAS 39, "Financial Instruments: Recognition and Measurement".

Financial assets and financial liabilities at "fair value through profit or loss" are either classified as "held for trading" or "designated at fair value through profit or loss" and are measured at fair value with changes in fair value recognized in the income statement. Transaction costs are expensed when incurred. The Company has designated cash and cash equivalents as "held for trading".

Financial assets and financial liabilities classified as "loans and receivables", "held-to-maturity", or "financial liabilities measured at amortized cost" are measured at amortized cost using the effective interest method of amortization. "Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. "Held-to-maturity" financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. "Financial liabilities measured at amortized cost" are those financial liabilities that are not designated as "fair value through the statement of income" and that are not derivatives. The Company has designated accounts receivable and deposits as "loans and receivables" and bank debt and accounts payable and accrued liabilities as "financial liabilities measured at amortized cost". Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

(ii) *Derivative financial instruments*

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. The Company's policy is not to utilize derivative financial instruments for speculative purposes. All financial derivative contracts are classified as "fair value through profit or loss".

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the statement of income. Changes in the fair value of separable embedded derivatives are recognized immediately in the income statement. The Company has not identified any embedded derivatives.

(iii) *Equity instruments*

The Company's common shares and warrants are classified as equity instruments. Incremental costs directly attributable to the issue of common shares, warrants, stock options and performance warrants are recognized as a deduction from equity, net of any tax effects.

(iv) *Impairment*

The Company assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as "fair value through profit or loss" are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

(p) Recent accounting pronouncements

Financial Instruments

The 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, 2013. However, the IASB has published an exposure draft which proposes to extend the mandatory effective date to January 1, 2015. There will be no significant impact to the Company upon implementation of the published 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 11, "Joint Arrangements", IFRS 12, "Disclosures of Interest in Other Entities" 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.

Presentation of Items of Other Comprehensive Income

In June 2011, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" requiring corporations to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. Retrospective application of this amendment is effective for fiscal years beginning on or after July 1, 2012, with earlier adoption permitted. There will be no significant impact to the Company upon implementation of the amended standard.

4. Business combinations

PrivateCo.

On March 1, 2010, the Company, through its newly formed wholly-owned subsidiary Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of a private oil & gas company ("PrivateCo"), which had approximately 214 barrels of oil equivalent per day of production, 25.5 net sections of undeveloped lands and estimated working capital of approximately $8 million at the time of acquisition. As consideration, the Company issued 18,666,211 common shares at an ascribed value of $0.91 per common share. The ascribed value was equal to the closing price of the Company's shares on the TSX Venture Exchange on March 1, 2010. The acquisition was accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The purchase price allocation is as follows:

Consideration:		
Common shares issued	$	16,986
Fair value of assets and liabilities acquired:		
Property and equipment	$	8,134
Exploration and evaluation		1,336
Cash		8,276
Working capital deficiency		(294)
Deferred income tax asset		700
Decommissioning liabilities		(1,166)
	$	16,986

The attributed value of the common shares has been excluded from the statement of cash flows as a non-cash transaction.

The accounts of the Company include the results of PrivateCo from March 1, 2010 through December 1, 2010, at which time it was amalgamated with the Company.

As a result of the acquisition, the Company evaluated PrivateCo's estimated future cash flows based on proved producing reserves and determined that the Company was probable to recognize deferred income tax assets on certain tax pools of PrivateCo.

Transaction costs of $70 thousand were primarily comprised of legal fees and are recorded on the condensed interim statement of loss and comprehensive loss as Transaction costs.

PrivateCo incurred $1 million in legal, advisory and severance costs with respect to the sale of the company, all of which were paid by PrivateCo at closing, except for $228 thousand which is included in the working capital deficiency acquired.

The fair value of accounts receivable acquired was $159 thousand and represented the contractual amounts receivable and are considered to be collectible. Accounts receivable were comprised of the following:

Sales revenue receivable	$	36
Joint interest receivables		28
Accrued and other receivables		95
	$	159

PrivateCo's revenue and net loss since the closing date, March 1, 2010, and pro forma consolidated revenue and net loss giving effect to the acquisition of PrivateCo as if it had occurred on January 1, 2010, are not practicable to determine. The operations of PrivateCo are not managed as a separate business unit or division of Novus and general business overhead and other costs of Novus are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates about what management's intent would have been during those periods.

Coyote Resources Ltd.

On March 4, 2010, the Company, through its wholly-owned subsidiary Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of Coyote Resources Ltd. ("Coyote"), which owned two sections of prospective land in the Dodsland area of Saskatchewan. As consideration, the Company paid $702 thousand and assumed $222 thousand of debt. The acquisition was accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The purchase price allocation is as follows:

Consideration:		
Cash	$	702
Fair value of assets and liabilities acquired:		
Property and equipment	$	1,410
Working capital deficiency		(222)
Deferred income tax liability		(312)
Decommissioning liabilities		(174)
	$	702

The accounts of the Company include the results of Coyote from March 4, 2010 through December 1, 2010, at which time it was amalgamated with the Company.

As a result of the acquisition, the Company determined that it was probable to recognize deferred income tax assets on certain tax pools of the Company to offset the deferred income tax liability associated with the acquisition. As a result, $312 thousand has been recorded as a deferred income tax recovery during the year ended December 31, 2010.

Transaction costs of $64 thousand were primarily comprised of legal fees and are recorded on the condensed interim statement of loss and comprehensive loss as Transaction costs.

The fair value of accounts receivable acquired are $34 thousand which represents the contractual amounts receivable and are considered to be collectible. Accounts receivable were comprised of the following:

Sales revenue receivable	$	33
Accrued and other receivables		1
	$	34

Coyote's revenue and net loss since the closing date, March 4, 2010, and pro forma consolidated revenue and net loss giving effect to the acquisition of Coyote as if it had occurred on January 1, 2010, are not practicable to determine. The operations of Coyote are not managed as a separate business unit or division of Novus and general business overhead and other costs of Novus are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates about what management's intent would have been during those periods.

Titan Oilfield Services Inc.

On April 7, 2010, the Company, through its wholly-owned subsidiary Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of Titan Oilfield Services Inc. ("Titan"), which owned 2.3 sections of prospective land in the Dodsland area of Saskatchewan. As consideration, the Company paid $1.25 million. The acquisition was accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The purchase price allocation is as follows:

Consideration:		
Cash	$	1,250
Fair value of assets and liabilities acquired:		
Property and equipment	$	1,906
Deferred income tax liability		(446)
Decommissioning liabilities		(210)
	$	1,250

The accounts of the Company include the results of Titan from April 7, 2010 through December 1, 2010, at which time it was amalgamated with the Company.

As a result of the acquisition, the Company determined that it was probable to recognize deferred income tax assets on certain tax pools of the Company to offset the deferred income tax liability associated with the acquisition. As a result, $446 thousand has been recorded as a deferred income tax recovery during the year ended December 31, 2010.

Transaction costs of $103 thousand were primarily comprised of legal and consulting fees and are recorded on the condensed interim statement of loss and comprehensive loss as Transaction costs.

The fair value of accounts receivable acquired was nil.

Titan's revenue and net loss since the closing date, April 7, 2010, and pro forma consolidated revenue and net loss giving effect to the acquisition of Titan as if it had occurred on January 1, 2010, are not practicable to determine. The operations of Titan are not managed as a separate business unit or division of Novus and general business overhead and other costs of Novus are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates about what management's intent would have been during those periods.

5. Exploration and evaluation

Cost		**Sep 30, 2011**		Dec 31, 2010
Balance, beginning of period	**$**	**11,779**	$	4,900
Business combinations		**-**		1,336
Additions		**2,532**		9,123
Dispositions		**(57)**		-
Transfers to property and equipment		**(503)**		(1,999)
Transfers to exploration expense		**-**		(1,581)
Balance, end of period	**$**	**13,751**	$	11,779

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 CGUs.

6. Property and equipment

Petroleum and natural gas properties		**Sep 30, 2011**		Dec 31, 2010
Balance, beginning of period	**$**	**120,261**	$	63,828
Additions		**64,518**		50,593
Dispositions		**(2,413)**		-
Transfers from exploration and evaluation		**503**		1,999
Impairment of assets		**-**		(7,609)
Business combinations		**-**		11,450
Balance, end of period	**$**	**182,869**	$	120,261

Other corporate assets		**Sep 30, 2011**		Dec 31, 2010
Balance, beginning of period	**$**	**552**	$	371
Additions		**131**		181
Balance, end of period	**$**	**683**	$	552

Accumulated depletion and depreciation		**Sep 30, 2011**		Dec 31, 2010
Balance, beginning of period	**$**	**34,617**	$	23,712
Depletion and depreciation expense		**10,378**		10,905
Balance, end of period	**$**	**44,995**	$	34,617

Carrying amounts		**Sep 30, 2011**		Dec 31, 2010
Petroleum and natural gas properties	**$**	**138,323**	$	85,963
Other corporate assets		**234**		233
	$	**138,557**	$	86,196

The depletion, depreciation and impairment of property and equipment, and any reversal thereof, are recognized in depletion and depreciation expense. Future development costs of $176.2 million (December 31, 2010 – $135.4 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 $121 thousand for the three months ended September 30, 2011 (2010 - $112 thousand) and $367 thousand for the nine months ended September 30, 2011 (2010 - $320 thousand) were capitalized as they were directly attributable to drilling, completion and facility construction activities.

Petroleum and natural gas properties have been reduced by Alberta drilling royalty credits in the amount of $nil (2010 - $587 thousand).

During the second, third and fourth quarters of 2010, the Company recognized impairments on the following cash generating units:

Central Alberta	$	1,691
North Central Alberta		2,267
Northwest Alberta		3,398
Southeast Saskatchewan		253
	$	7,609

Of the total impairments, $3.7 million was recognized at September 30, 2010 and was recorded as additional depletion and depreciation 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 future cash flows were adjusted for risks specific to the assets and discounted at a rate of 10%.

No impairment was recorded for the nine months ended September 30, 2011 since prevailing conditions have not changed and there are no other indicators of impairment.

7. Bank debt

As at September 30, 2011, the Company had drawn $30.2 million against its $50 million revolving operating demand line. The Company had also drawn its $10 million acquisition/development demand loan. The loans are 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% and the interest rate on the acquisition/development loan is charged at prime plus 1.25%. 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, 2011, this ratio was 1.7:1.

The credit facilities are subject to periodic review by the bank, with the next review scheduled on or before January 1, 2012.

The effective interest rate for the credit facilities, when drawn, was approximately 3.75% for the three months ended September 30, 2011 (2010 – 4.26%) and 3.75% for the nine months ended September 30, 2011 (2010 – 3.95%). As the credit facility bears interest at floating rates, the Company is exposed to interest rate risk on outstanding balances.

8. 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, 2011		Dec 31, 2010
Decommissioning liabilities, beginning of period	**$**	**8,174**	$	3,619
Liabilities incurred		**2,042**		2,505
Liabilities acquired on property acquisitions		**463**		284
Liabilities acquired on business combinations (note 4)		**-**		1,550
Liabilities settled		**(480)**		(32)
Liabilities extinguished on property dispositions		**(203)**		-
Accretion expense		**266**		248
Decommissioning liabilities, end of period	**$**	**10,262**	$	8,174

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be $18.1 million (December 31, 2010 - $13.0 million). The obligations were calculated using a risk-free interest rate of approximately 4% (2010 – 4%) and an inflation rate of 2% (2010 – 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 2015 and 2031.

9. Equity instruments

Authorized

Unlimited number of common shares

Unlimited number of non-voting preferred shares, issuable in series. The Board of Directors may fix from time to time the number of shares that comprise a series and the rights, privileges, restrictions and conditions for the series. Preferred shares of any series may be convertible into or exchangeable for common shares.

Issued

Common Shares	**Shares**		**Stated Value**
Balance - December 31, 2009	122,104	$	152,046
Issued for cash (note 9(a))	22,730		25,003
Issued on business combinations (note 4)	18,666		16,986
Issued for farm-in agreement (note 9(b))	325		286
Issued for asset purchase agreements (note 9(c))	1,807		1,683
Issued on exercise of warrants	1,454		1,341
Normal course issuer bid (note 9(i))	(125)		(79)
Reduction of stated capital (note 9(h))	-		(87,554)
Issue costs	-		(1,590)
Balance – December 31, 2010	166,961	$	108,122
Issued on exercise of stock options	73		112
Issued on exercise of warrants	3,684		3,398
Normal course issuer bid (note 9(i))	(1,658)		(1,078)
Balance – September 30, 2011	**169,060**	**$**	**110,554**

Warrants	Number of Warrants and Underlying Shares		Stated Value
Balance - December 31, 2009	30,071	$	6,901
Exercised	(1,454)		(250)
Expired	(2,341)		(2,131)
Balance – December 31, 2010	26,276		4,520
Exercised	(3,684)		(634)
Balance – September 30, 2011	**22,592**	**$**	**3,886**
Total Equity Instruments		**$**	**114,440**

a) Financing

On May 18, 2010, the Company completed an equity offering whereby the Company issued 22,730,000 common shares at a price of $1.10 per share for aggregate gross proceeds of $25 million ($23.5 million net of share issuance costs).

b) Farm-in agreement

On February 9, 2010, the Company issued 325,000 common shares at an ascribed value of $0.88 per common share in exchange for the right to farm-in on certain lands in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on February 9, 2010. The value of common shares of $286 thousand issued as consideration for the farm-in agreement has been excluded from the statement of cash flows as a non-cash transaction.

c) Asset purchase agreements

On December 30, 2010, the Company made a cash payment of $50 thousand and issued 500,000 common shares at an ascribed value of $1.12 per common share in exchange for certain leases in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on December 30, 2010. The value of common shares of $560 thousand issued as partial consideration for the leases has been excluded from the statement of cash flows as a non-cash transaction.

On December 30, 2010, the Company issued 122,730 common shares at an ascribed value of $1.12 per common share in exchange for certain leases in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on December 30, 2010. The value of common shares of $137 thousand issued as consideration for the leases has been excluded from the statement of cash flows as a non-cash transaction.

On July 8, 2010, the Company issued 794,119 common shares at an ascribed value of $0.80 per common share in exchange for certain leases in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on July 8, 2010. The value of common shares of $635 thousand issued as consideration for the leases has been excluded from the statement of cash flows as a non-cash transaction.

On May 27, 2010, the Company made a cash payment of $1.3 million and issued 390,000 common shares at an ascribed value of $0.90 per share in exchange for interests in certain leases in the greater Dodsland area of Saskatchewan. The ascribed value was equal to the closing price of the Company's common shares on the TSX Venture Exchange on May 27, 2010. The value of common shares of $351 thousand issued as partial consideration for the leases has been excluded from the statement of cash flows as a non-cash transaction.

d) Warrants

The following table summarizes the warrants outstanding on September 30, 2011:

Date of Expiry	Exercise Price	Number of warrants
Mar 31, 2012	$ 0.75	22,592

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

The following tables summarize the status of the Company's stock option plan and the activity during the nine month period ended September 30, 2011 and year ended December 31, 2010:

	Sep 30, 2011		Dec 31, 2010	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Balance – beginning of period	15,375	$ 0.84	3,415	$ 0.78
Granted	60	1.23	12,210	0.87
Exercised	(73)	0.99	-	-
Expired/forfeited	-	-	(250)	1.50
Balance – end of period	15,362	$ 0.84	15,375	$ 0.84
Exercisable – end of period	8,306	$ 0.82	2,886	$ 0.86

Date of Grant	**Number Outstanding at Sep 30, 2011**	**Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Date of Expiry**	**Number Exercisable at Sep 30, 2011**
Feb 12, 2007	**30**	$ 3.00	0.37	Feb 12, 2012	**30**
Jul 16, 2008	**247**	2.00	1.79	Jul 16, 2013	**247**
Sep 4, 2009	**3,000**	0.60	2.93	Sep 4, 2014	**3,000**
Feb 9, 2010	**3,850**	0.88	3.36	Feb 9, 2015	**2,888**
Jun 17, 2010	**400**	1.10	3.72	Jun 17, 2015	**183**
Oct 1, 2010	**550**	0.90	4.01	Oct 1,2015	**137**
Nov 1, 2010	**7,000**	0.85	4.09	Nov 1, 2015	**1,750**
Nov 23, 2010	**225**	0.90	4.15	Nov 23, 1015	**56**
Feb 10, 2011	**60**	1.23	4.37	Feb 10, 2016	**15**
	15,362	**$ 0.84**	**3.63**		**8,306**

f) Performance warrants

The following tables summarize the status of the Company's performance warrants at September 30, 2011 and December 31, 2010:

	Number of Warrants	**Exercise Price**
Balance – Dec 31, 2010 and Sep 30, 2011	4,200	$ 0.56
Exercisable – Dec 31, 2010 and Sep 30, 2011	-	$ -

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%. The performance warrants will also vest upon a change in control of the Company. No further performance warrants will be issued.

g) Stock-based compensation expense

The fair value of stock options granted during the nine months ended September 30, 2011 and September 30, 2010 were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Sep 30, 2011	Sep 30, 2010
Risk-free interest rate	**2.3%**	2.2%
Expected volatility	**86%**	86%
Expected life	**4.0 years**	4.3 years
Expected dividend yield	**0%**	0%
Estimated forfeiture rate	**2.4%**	2.4%
Fair value per option	**$0.77**	$0.57

Stock-based compensation costs of $712 thousand for the three months ended September 30, 2011 (2010 - $579 thousand) and $3.05 million for the nine months ended September 30, 2011 (2010 - $1.94 million) have been expensed and have resulted in corresponding increases in contributed surplus in the respective periods. 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 at this time.

h) Reduction of stated capital

On June 3, 2010, the shareholders of the Company approved an $87.6 million reduction to the Company's stated capital account. This reduction was offset by a corresponding elimination of the Company's December 31, 2009 deficit balance.

i) Normal course issuer bids

The Company instituted a normal course issuer bid for the period September 15, 2011 to September 14, 2012, 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 13, 2010 to September 12, 2011, pursuant to which a maximum of 5,000,000 commons shares could be acquired during the period.

For the three months ended September 30, 2011, the Company acquired and cancelled 1,117,500 common shares (2010 – nil) at an average cost of $0.85. The excess cost over stated value of $216 thousand was charged to the deficit account.

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

At September 30, 2011, a maximum of 4,670,000 common shares may be acquired by the Company under the present normal course issuer bid.

j) Per share amounts

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

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Basic weighed average shares	**169,700**	166,373	**169,328**	149,618
Effect of dilutive instruments	**3,155**	-	**11,785**	-
Diluted weighted average share	**172,855**	166,373	**181,113**	149,618

The calculation of diluted net income (loss) per share for the three month period ended September 30, 2011 excludes 5.4 million stock options as the inclusion of these options would have been anti-dilutive. For the nine month period ended September 30, 2011, 337 thousand stock options have been excluded from the calculation of diluted net income (loss) per share as the inclusion of these options would have been anti-dilutive.

10. Finance costs

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Interest and borrowing costs	**$ 334**	$ 24	**$ 499**	$ 24
Accretion of decommissioning liabilities	**99**	68	**266**	171
	$ 433	$ 92	**$ 765**	$ 195

11. Income taxes

The current income tax expense of $207 thousand for the three months ended September 30, 2011 (2010 - $89 thousand) and $420 thousand for the nine months ended September 30, 2011 (2010 – $139 thousand) relate 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, 2011:

Classification		**Amount**
Canadian development expenditures	**$**	**70,835**
Non-capital loss carry-forwards		**65,891**
Canadian oil and gas property expenditures		**38,462**
Capital cost allowance		**26,263**
Canadian exploration expenditures		**20,558**
Scientific research and development		**18,899**
Share issue costs		**3,269**
Other		**239**
	$	**244,416**

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

Year		**Amount**
2013	**$**	**4,672**
2014		**1,898**
2022 – 2031		**59,321**
Total non-capital loss carry-forwards	**$**	**65,891**

12. Supplemental cash flow information

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Changes in non-cash working capital related to:				
Accounts receivable	**$ (3,672)**	$ 374	**$ (2,830)**	$ (2,610)
Deposits and prepaid expenses	**372**	73	**17**	(156)
Accounts payable and accrued liabilities	**(1,142)**	(5,809)	**4,068**	251
Business combinations (note 4)	**-**	-	**-**	(516)
	$ (4,442)	$ (5,362)	**$ 1,255**	$ (3,031)

	Three months ended		Nine months ended	
	Sep 30, 2011	Sep 30, 2010	**Sep 30, 2011**	Sep 30, 2010
Changes in non-cash working capital related to:				
Operating activities	**$ (5,958)**	$ (2,632)	**$ (6,815)**	$ (2,451)
Investing activities	**1,516**	(2,571)	**8,070**	(287)
Financing activities	**-**	(159)	**-**	(293)
	$ (4,442)	$ (5,362)	**$ 1,255**	$ (3,031)
Cash and cash equivalents consist of:				
Cash on deposit:	**$ -**	$ 14,620	**$ -**	$ 14,620
Interest and borrowing costs paid	**$ 334**	$ 24	**$ 499**	$ 24
Income taxes paid	**$ 124**	$ 50	**$ 238**	$ 50

13. Financial instruments and risk management

The Company's financial instruments as at September 30, 2011 consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and bank debt. The fair value of these instruments approximates their carrying value due to their short-term nature. Bank debt bears interest at a floating market rate, and accordingly the fair value approximates the carrying value.

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. One of these marketers owed the Company $3.8 million at September 30, 2011, 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. During the period ended September 30, 2011, the Company has a provision for doubtful accounts in the amount of $175 thousand (2010 – $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, 2011, the Company's accounts receivable were comprised of the following:

Sales revenue receivable	$	5,878
Joint interest receivable		1,505
Cash call receivable		1
Accrued and other receivable		580
Total accounts receivable	$	7,964

As at September 30, 2011, 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
$ 7,964	$ 6,298	$ 555	$ 100	$ 1,011

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

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 September 30, 2011, the Company's accounts payable and accrued liabilities were $16.7 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 $50 million revolving operating demand loan to manage its liquidity and settlement of liabilities, of which $30.2 million has been drawn as at September 30, 2011.

The Company's financial liabilities at September 30, 2011 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
$ 16,658	$ 11,557	$ 3,230	$ 565	$ 1,306

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 7 and 15.

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, 2011.

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, 2011.

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 three months and nine months ended September 30, 2011.

For the nine months ended September 30, 2011, a 100 basis points change to the effective interest rate would have a $302 thousand impact on net loss and cash flow from operating activities.

14. 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, 2011.

The Company monitors its capital structure using primarily the non-GAAP 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 funds flow from operations for the year. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital and asset retirement 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, 2011 the ratio of net debt to funds flow from operations was 1.5:1 calculated as follows:

		Three months ended Sep 30, 2011
Current assets	$	8,500
Current liabilities		(56,858)
Net debt	$	(48,358)
Cash flow from operations	$	1,700
Changes in non-cash working capital items		5,958
Decommissioning expenditures		275
Funds flow from operations		7,933
Annualized funds flow from operations	$	31,732
Net debt to annualized funds flow from operations		1.5:1

At September 30, 2011, this ratio is at the top end of the 1.5:1 objective due to the intensive capital program resulting in an increased debt load being carried in advance of new production coming on stream. The ratio is expected to contract by year end as the pace of capital activity slows, and funds flow is realized from new production.

The Company's share capital is not subject to any external restrictions; however its credit facility is subject to periodic reviews (note 7). 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, 2011, this working capital ratio was 1.7:1.

15. Commitments

As at September 30, 2011, the Company had commitments as follows:

	2011	2012	2013	Thereafter
Office Lease	$ 191	632	579	$ -

16. First adoption of international financial reporting standards

As disclosed in note 2, these condensed interim financial statements represent the Company's initial presentation of the financial results of operations and financial position under IFRS for the period ended September 30, 2011 in conjunction with the Company's annual audited financial statements to be issued under IFRS as at and for the year ended December 31, 2011. As a result, these condensed interim financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual financial statements in accordance with Canadian GAAP.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRS.

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's condensed balance sheets as at January 1, 2010, September 30,

2010 and December 31, 2010, condensed statements of loss and comprehensive loss and cash flows for the three and nine months ended September 30, 2010 and for the twelve months ended December 31, 2010 and shareholders' equity reconciliations as at January 1, 2010, September 30, 2010 and December 31, 2010.

Reconciliation of balance sheet as at January 1, 2010 (date of transition to IFRS)

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 22,143	$ -	$ 22,143
Accounts receivable		2,512	-	2,512
Deposits and prepaid expenses		457	-	457
		25,112		25,112
Exploration and evaluation	a(i)	-	4,900	4,900
Property and equipment	a(i)	45,387	(4,900)	40,487
Deferred income taxes		4,223	-	4,223
Goodwill	a(ii)	5,915	(5,915)	-
		$ 80,637	$ (5,915)	$ 74,722
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		$ 5,674	$ -	$ 5,674
Decommissioning liabilities	a(i)	2,385	1,234	3,619
		8,059	1,234	9,293
Shareholders' Equity				
Equity instruments	b(v)	156,532	2,415	158,947
Contributed surplus		3,600	-	3,600
Deficit		(87,554)	(9,564)	(97,118)
		72,578	(7,149)	65,429
		$ 80,637	$ (5,915)	$ 74,722

Reconciliation of balance sheet as at September 30, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 14,620	$ -	$ 14,620
Accounts receivable		5,137	-	5,137
Deposits and prepaid expenses		598	-	598
		20,355		20,355
Exploration and evaluation	b(i)	-	13,390	13,390
Property and equipment	b(i)	86,307	(13,478)	72,829
Deferred income taxes		4,923	-	4,923
Goodwill	a(ii)	5,915	(5,915)	-
		$ 117,500	$ (6,003)	$ 111,497
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		$ 5,925	$ -	$ 5,925
Decommissioning liabilities	b(iii)	4,672	1,925	6,597
		10,597	1,925	12,522
Shareholders' Equity				
Equity instruments	b(v)	109,598	2,415	112,013
Contributed surplus		7,668	-	7,668
Deficit		(10,363)	(10,343)	(20,706)
		106,903	(7,928)	98,975
		$ 117,500	$ (6,003)	$ 111,497

Reconciliation of balance sheet as at December 31, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 5,063	$ -	$ 5,063
Accounts receivable		5,134	-	5,134
Deposits and prepaid expenses		553	-	553
		10,750		10,750
Exploration and evaluation	b(i)	-	11,779	11,779
Property and equipment	b(i)	100,378	(14,182)	86,196
Deferred income taxes		16,663	-	16,663
Goodwill	a(ii)	5,915	(5,915)	-
		$ 133,706	$ (8,318)	$ 125,388
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		$ 12,590	$ -	$ 12,590
Decommissioning liabilities	b(iii)	5,193	2,981	8,174
		17,783	2,981	20,764
Shareholders' Equity				
Equity instruments	b(v)	110,227	2,415	112,642
Contributed surplus		8,813	-	8,813
Deficit		(3,117)	(13,714)	(16,831)
		115,923	(11,299)	104,624
		$ 133,706	$ (8,318)	$ 125,388

Reconciliation of statement of loss and comprehensive loss for the three months ended September 30, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Production revenue		$ 6,155	$ -	$ 6,155
Royalties		(914)	-	(914)
		5,241	-	5,241
EXPENSES				
Field operations		1,866	-	1,866
Transportation and marketing		148	-	148
General and administrative	b(vii)	1,061	(24)	1,037
Exploration expense	b(i)	-	30	30
Stock-based compensation		579	-	579
Depletion and depreciation	b(iv)	4,824	1,383	6,207
Accretion	b(iii)	93	(93)	-
		8,571	1,296	9,867
Loss from operations		(3,330)	(1,296)	(4,626)
Other income (loss)				
Finance costs	b(iii,vii)	-	(92)	(92)
		-	(92)	(92)
Income (loss) before income taxes		(3,330)	(1,388)	(4,718)
Current		89	-	89
Future (recovery)		-	-	-
		89	-	89
Net loss and comprehensive loss for the period		$ (3,419)	$ (1,388)	$ (4,807)
Net loss and comprehensive loss per share				
Basic and diluted		$ (0.02)	$ (0.01)	$ (0.03)

Reconciliation of statement of loss and comprehensive loss for the nine months ended September 30, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Production revenue		$ 12,230	$ -	$ 12,230
Royalties		(2,497)	-	(2,497)
		9,733	-	9,733
EXPENSES				
Field operations		4,110	-	4,110
Transportation and marketing		370	-	370
General and administrative	b(vii)	3,565	(24)	3,541
Exploration expense	b(i)	-	61	61
Transaction costs		237	-	237
Stock-based compensation		1,937	-	1,937
Depletion and depreciation	b(iv)	10,244	799	11,043
Accretion	b(iii)	252	(252)	-
		20,715	584	21,299
Income (loss) from operations		(10,982)	(584)	(11,566)
Other income (loss)				
Finance costs	b(iii,vii)	-	(195)	(195)
		-	(195)	(195)
Income (loss) before income taxes		(10,982)	(779)	(11,761)
Current		139	-	139
Future (recovery)		(758)	-	(758)
		(619)	-	(619)
Net loss and comprehensive loss for the period		$ (10,363)	$ (779)	$ (11,142)
Net loss and comprehensive loss per share				
Basic and diluted		$ (0.07)	$ (0.01)	$ (0.07)

Reconciliation of statement of loss and comprehensive loss for the year ended December 31, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
REVENUE				
Production revenue		$ 20,209	$ -	$ 20,209
Royalties		(3,518)	-	(3,518)
		16,691	-	16,691
EXPENSES				
Field operations		6,468	-	6,468
Transportation and marketing		650	-	650
General and administrative	b(vii)	5,351	(123)	5,228
Exploration expense	b(i)	-	1,643	1,643
Transaction costs		237	-	237
Stock-based compensation		3,082	-	3,082
Depletion and depreciation	b(ii,iv)	15,896	2,618	18,514
Accretion	b(iii)	359	(359)	-
		32,043	3,779	35,822
Loss from operations		(15,352)	(3,779)	(19,131)
Other income (loss)				
Finance costs	b(iii,vii)	-	(371)	(371)
		-	(371)	(371)
Income (loss) before income taxes		(15,352)	(4,150)	(19,502)
Current		230	-	230
Future (recovery)		(12,498)	-	(12,498)
		(12,268)	-	(12,268)
Net loss and comprehensive loss for the period		$ (3,084)	$ (4,150)	$ (7,234)
Net loss and comprehensive loss per share				
Basic and diluted		$ (0.02)	$ (0.03)	$ (0.05)

Reconciliation of shareholders' equity as at January 1, 2010, September 30, 2010 and December 31, 2010

	Notes	Jan 1, 2010	Sep 30, 2010	Dec 31, 2010
Total shareholder's equity under Canadian GAAP		$ 72,578	$ 106,903	$ 115,923
Impairment of goodwill	a(ii)	(5,915)	(5,915)	(5,915)
Effect on decommissioning liabilities	a(i)	(1,234)	(1,234)	(1,234)
Tax impact of flow-through shares	b(v)	3,836	3,836	3,836
Premium liability on flow-through shares	b(v)	(1,421)	(1,421)	(1,421)
Renunciation of flow-through expenditures	b(v)	(2,415)	(2,415)	(2,415)
Increase in depletion expense	b(iv)	-	(799)	(2,618)
Accretion effect on decommissioning liabilities	b(iii)	-	81	111
Exploration expense	b(i)	-	(61)	(1,643)
		(7,149)	(7,928)	(11,299)
Total shareholders' equity under IFRS		$ 65,429	$ 98,975	$ 104,624

Reconciliation of statement of cash flows
for the three months ended September 30, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net loss for the period		$ (3,419)	$ (1,388)	$ (4,807)
Non-cash and other items:				
Stock-based compensation		579	-	579
Depletion and depreciation	b(iv)	4,824	1,383	6,207
Accretion	b(iii)	93	(25)	68
Decommissioning expenditures		(24)	-	(24)
Change in non-working capital		(2,632)	-	(2,632)
		(579)	(30)	(609)
FINANCING ACTIVITIES				
Proceeds from issuance of equity instruments, net of issuance costs		(6)	-	(6)
Change in non-cash working capital		(159)	-	(159)
		(165)	-	(165)
INVESTING ACTIVITIES				
Capital expenditures, net		(10,499)	30	(10,469)
Change in non-cash working capital		(2,571)	-	(2,571)
		(13,070)	30	(13,040)
Decrease in cash and cash equivalents		(13,814)	-	(13,814)
Cash and cash equivalents, beginning of period		28,434	-	28,434
Cash and cash equivalents, end of period		$ 14,620	-	$ 14,620

Reconciliation of statement of cash flows
for the nine months ended September 30, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net (income) loss for the period		$ (10,363)	$ (779)	$ (11,142)
Non-cash and other items:				
Stock-based compensation		1,937	-	1,937
Depletion and depreciation	b(iv)	10,244	799	11,043
Accretion	b(iii)	252	(81)	171
Deferred income taxes (recovery)		(758)	-	(758)
Decommissioning expenditures		(28)	-	(28)
Change in non-working capital		(2,451)	-	(2,451)
		(1,167)	(61)	(1,228)
FINANCING ACTIVITIES				
Proceeds from issuance of equity instruments, net of issuance costs		24,493	-	24,493
Change in non-cash working capital		(293)	-	(293)
		24,200	-	24,200
INVESTING ACTIVITIES				
Capital expenditures, net		(36,593)	61	(36,532)
Cash paid on business combinations		(1,952)	-	(1,952)
Cash acquired on business combinations		8,276	-	8,276
Change in non-cash working capital		(287)	-	(287)
		(30,556)	61	(30,495)
Decrease in cash and cash equivalents		(7,523)	-	(7,523)
Cash and cash equivalents, beginning of period		22,143	-	22,143
Cash and cash equivalents, end of period		$ 14,620	-	$ 14,620

Reconciliation of statement of cash flows for the year ended December 31, 2010

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net loss for the period		$ (3,084)	$ (4,150)	$ (7,234)
Non-cash and other items:				
Stock-based compensation		3,082	-	3,082
Depletion and depreciation	b(iv)	15,896	2,618	18,514
Accretion	b(iii)	359	(111)	248
Deferred income taxes (recovery)		(12,498)	-	(12,498)
Decommissioning expenditures		(32)	-	(32)
Exploration expense	b(i)	-	1,581	1,581
Changes in non-working capital		(756)	-	(756)
		2,967	(62)	2,905
FINANCING ACTIVITIES				
Proceeds from issuance of equity instruments, net of issuance costs		24,504	-	24,504
Redemption of share capital		(112)		(112)
Change in non-cash working capital		(293)	-	(293)
		24,099	-	24,099
INVESTING ACTIVITIES				
Capital expenditures, net		(55,201)	62	(55,139)
Cash paid on business combinations		(1,952)	-	(1,952)
Cash acquired on business combinations		8,276	-	8,276
Change in non-cash working capital		4,731	-	4,731
		(44,146)	62	(44,084)
Decrease in cash and cash equivalents		(17,080)	-	(17,080)
Cash and cash equivalents, beginning of period		22,143	-	22,143
Cash and cash equivalents, end of period		$ 5,063	-	$ 5,063

a) First-time adoption exemptions and exceptions applied

The following optional exemptions and required exceptions were applied by the Company:

(i) Deemed cost exemption

Under Canadian GAAP, the Company has historically accounted for exploration and development costs of petroleum and natural gas properties in a single Canada wide full cost accounting pool. Under IFRS, exploration expenditures are reclassified as exploration and evaluation assets. IFRS 1 contains an exemption that allowed the Company to measure petroleum and natural gas assets at the date of transition as follows:

a) Exploration and evaluation assets are reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP; and

b) the remaining full cost pool is allocated to the development and production assets and components pro rata using reserve values or reserve volumes.

The reclassification of exploration and evaluation assets resulted in a $4.9 million increase in exploration and evaluation assets with a corresponding decrease in property and equipment at January 1, 2010. The remaining full cost pool was allocated pro-rata on the basis of total proved plus probable reserve values and January 1, 2010 forecast pricing.

Decommissioning liabilities, disclosed as asset retirement obligations under Canadian GAAP, are calculated using a risk-free discount rate under IFRS, resulting in an increase of $1.2 million to decommissioning liabilities at January 1, 2010, which was recognized directly in opening deficit.

(ii) Impairment

In accordance with IFRS 6 and IAS 36, the Company performed an impairment test on transition of its revalued assets. The impairment test compared the fair value less cost to sell of each of its CGUs to the allocated net book value at January 1, 2010, including any underlying previously recorded goodwill, which was allocated to the specific CGUs that were expected to benefit from the acquisitions for the purpose of impairment testing. There was no impairment of property and equipment or E&E assets on transition at January 1, 2010. Goodwill of $5.9 million was impaired which resulted in a write down with a corresponding charge to opening deficit.

(iii) Business combinations exemption

IFRS 1 allows the Company to adopt IFRS 3, “Business Combinations”, on a prospective basis rather than retrospectively restating all prior business combinations. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010 and such business combinations have not been restated. Any goodwill arising on such business combinations before January 1, 2010 has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

(iv) Estimate exception

The applicable mandatory exception in IFRS 1 applied in the conversion from Canadian GAAP to IFRS is "Estimates". Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

b) Changes in accounting policies

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous Canadian GAAP and the current IFRS accounting policies applied by the Company. Only the differences having an impact on the Company are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Unless a quantitative impact was noted below, the impact from the change was not material to the Company.

(i) Exploration and evaluation assets

Under IFRS, E&E costs are recognized as E&E assets. The Company followed full cost accounting under Canadian GAAP and classified all E&E costs as petroleum and natural gas property and equipment. The effect of this change results in a reclassification of E&E costs from petroleum and natural gas property and equipment to E&E assets. As well, pre-license seismic and other costs incurred are expensed directly to results of operations. Under Canadian GAAP, such pre-license and seismic costs were capitalized as part of petroleum and natural gas property and equipment.

E&E assets increased by $13.4 million at September 30, 2010 and $11.8 million at December 31, 2010. Property and equipment decreased by $13.4 million at September 30, 2010 and $11.8 million at December 31, 2010. Pre-license, seismic costs and carrying costs on non-producing properties expensed were $30 thousand for the three months ended September 30, 2010; $61 thousand for the nine months ended September 30, 2010 and $63 thousand for the year ended December 31, 2010.

E&E assets decreased by $nil for the three and nine months ended September 30, 2010 and $1.6 million for the year ended December 31, 2010 for unsuccessful exploratory drilling charged to exploration expense. Under Canadian GAAP, these amounts were recorded in the full cost pool and depleted accordingly.

(ii) Impairment

Under Canadian GAAP, impairment was measured by comparing the carrying amounts of property and equipment to the estimated net present value of future cash flows from proved plus probable reserves and the cost less impairment of unproved properties. Under IFRS, the aggregate carrying value is compared against the expected recoverable amount of each CGU, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. If the carrying value of a CGU exceeds its recoverable amount, then an impairment loss shall be recognized. Additionally, an impairment loss from a prior period may be reversed in a subsequent period if impairment no longer exists or has decreased.

Impairments were recorded on four of the Company’s CGUs principally due to decreasing natural gas prices and reserve revisions throughout the last three quarters of 2010. The amounts of these impairments were $2.0 million for the three months ended September 30, 2010; $3.7 million for the nine months ended September 30, 2010; and $7.6 million for the year ended December 31, 2010. The impairments reduced property and equipment with corresponding charges to depletion.

(iii) Decommissioning provisions

Under Canadian GAAP, asset retirement obligations were measured at fair value, incorporating market assumptions and discount rates based on the Company's credit-adjusted risk-free rate.

Adjustments were made to asset retirement obligations for changes in the timing or amount of the cash flows and the unwinding of the discount. However, changes in discount rates alone did not result in a re-measurement of the provision. Under Canadian GAAP, changes in estimates related to asset retirement obligations discriminated changes in estimates that increased the liability from those that decreased it. Upward revisions in the estimates of undiscounted cash flows were required to be discounted using the current credit-adjusted risk-free rate and downward revisions in the estimated cash flows were required to be discounted using the credit-adjusted risk-free rate employed when the original liability was recognized.

Under IFRS, future cash outflows are estimated as they arise and are discounted at the current appropriate discount rate. Both the cash flows to settle the obligation and the discount rate are considered at each reporting period are adjusted to the appropriate estimate at that point in time. Under IFRS, the estimated cash flow to abandon and remediate the wells and facilities is risk adjusted, therefore the provision is discounted at a risk-free rate. In addition, under Canadian GAAP, accretion of the discount was either included in the depletion and depreciation expense or shown as a separate expense item. Under IFRS, it is included in finance expenses.

Upon application of IFRS, decommissioning liabilities increased by $691 thousand as at September 30, 2010 and accretion expense decreased by $25 thousand and $81 thousand for the three and nine months ended September 30, 2010, respectively. Decommissioning liabilities increased by $1.7 million and accretion expense decreased by $111 thousand as at and during the year ended December 31, 2010, respectively.

(iv) Depletion policy

Upon transition to IFRS, the Company adopted a policy of depleting petroleum and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. In addition, depletion was done on the Canadian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (i.e. fields or combinations thereof). The use of total proved plus probable reserve base for calculating depletion resulted in a decrease to depletion expense of $594 thousand for the three months ended September 30, 2010, $2.9 million for the nine months ended September 30, 2010, and $5.0 million for the year ended December 31, 2010.

For E&E assets, the cost of undeveloped land that expires during the period is charged as additional depletion and depreciation expense.

(v) Flow-through shares

Under Canadian GAAP, the accounting treatment for flow-through shares is to record the full amount of proceeds in share capital. The carrying value of the shares issued was reduced, and the deferred income tax liability was increased when the expenditures were renounced and filed with taxation authorities. Under IFRS, the amount initially recorded in share capital is limited to the value of common shares that would have been issued on that date, with the difference between the common share value and the net proceeds set up as a deferred liability. The difference between this liability and the deferred income tax liability is recorded as income tax expense at the time qualifying expenditures are incurred. Since the flow-through spending commitments were fully satisfied by January 1, 2010, the difference between the initial liability and the deferred income tax liability of $2.4 million was adjusted through opening equity.

(vi) Farm-in arrangements and dispositions in property and equipment

Farm-in arrangements where the Company cedes a portion of its working interest to a partner are generally considered disposals of property and equipment under IFRS. Canadian full cost accounting guidelines required that no gain or loss be recorded on these or other dispositions where the change in depletion was less than 20%. The significance of these gains or losses will be dependent on the details of specific transactions and cannot be reasonably quantified.

(vii) Finance costs

Under IFRS a separate line item is required in the statement of loss and comprehensive loss for finance costs. The items under Canadian GAAP that were reclassified to finance costs were interest and borrowing costs and the accretion on the decommissioning liabilities.

(viii) Deferred income taxes

Any changes to income tax reporting are predominantly caused by the changes in the carrying value of assets, not due to the change in accounting methodology, with the exception of flow-through shares. IFRS requires that all deferred taxes be disclosed as non-current assets or liabilities and designated as deferred taxes.

There was no adjustment to deferred taxes on transition or throughout 2010 as all of the adjustments to decommissioning liabilities and property and equipment resulted in an increase of temporary differences related to the deferred tax assets. A valuation allowance was applied to these temporary differences resulting in no deferred tax effect on transition.