

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") should be read in conjunction with Novus Energy Inc.'s (formerly Regal Energy Ltd., and referred to as "Novus" or the "Company") unaudited interim financial statements as at and for the three and nine months ended June 30, 2009 and the audited consolidated financial statements as at and for the year ended September 30, 2008. The accompanying financial statements of Novus have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The financial data presented herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to Novus is available on SEDAR at [www.sedar.com](http://www.sedar.com) and Novus's website ([www.novusenergy.ca](http://www.novusenergy.ca)).

This MD&A is current as at August 24, 2009.

### 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 operations and operating netbacks. These measures have no standardized meanings, are not defined by Canadian generally accepted accounting measures ("GAAP"), and accordingly are referred to as non-GAAP measures. These supplemental measures are used by management to assess operating results between periods and between peer companies as they provide an indication of the results generated by the Company's principal business activities before the consideration of how these activities are financed or how the results are taxed.

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

	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash provided by (used in) operating activities	\$ 511,485	\$ 145,732	\$ (1,997,939)	\$ 341,340
Changes in non-cash working capital items	(1,019,907)	338,299	(171,461)	91,044
Asset retirement expenditures	32,504	-	32,504	-
Funds flow from (used in) operations	\$ (475,918)	\$ 484,031	\$ (2,136,896)	\$ 432,384

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

### OTHER MEASUREMENTS

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

Reported production represents Novus' ownership share of sales before the deduction of royalties. Where amounts are expressed on a barrel of 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 exchange rates; general economic and industry conditions; environmental risks; Kyoto protocol; and government regulation and taxation.

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

## THE COMPANY

The Company was incorporated pursuant to the Canada Business Corporations Act on August 7, 1998 as 3519309 Canada Incorporated. On September 28, 2002, 3519309 Canada Incorporated amalgamated to form SiberCore Technologies Incorporated. The Company at that time was a semiconductor company developing high value-added standard chips for intelligent hardware based switching and routing platforms.

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

On December 31, 2005, the Company acquired, by way of a Plan of Arrangement, all of the issued and outstanding shares of Regal Energy Corp., a public company listed on the TSX Venture Exchange, and changed the Company’s name to Regal Energy Ltd. (“Regal”). Pursuant to the Plan of Arrangement, the Company reorganized its share capital whereby the issued and issuable shares were split on a 7.37 for one basis. Shareholders of Regal received one share of the Company for each five shares of Regal Energy Corp. previously held. The Company was then continued under the *Business Corporations Act* (Alberta).

On July 10, 2008, the Company acquired all of the common shares of G2 Resources Inc. (“G2”) pursuant to an Arrangement Agreement amongst the Company, 1389787 Alberta Ltd. and G2. The companies were amalgamated on October 1, 2008.

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

The principal and head office of the Company is located at Suite 310, 333 5<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3B6. The registered office of the Company is located at 3500, 855 – 2<sup>nd</sup> 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.

## RECENT CORPORATE EVENTS

On March 31, 2009, the Company successfully completed a private placement of 277,500,000 units at \$0.05 per unit for gross proceeds of \$13,875,000 (net \$12,658,483). Each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to acquire an additional common share at a price of \$0.075 to be adjusted upwards on an equivalent basis for the consolidation of the common shares pursuant to customary adjustment provisions. The term of the warrant is 36 months, provided however, that if at any time from four months after closing, the daily volume-weighted average trading price of the common shares on the TSX-V exceeds \$0.12 (on a pre-consolidated basis) for 25 consecutive trading days and the Company gives written notice to the warrant holders within ten trading days of the end of such period, the expiry date will be reduced to 30 days from the giving of notice.

On May 15, 2009, the Company announced that it had changed its financial year-end from September 30 to December 31 effective October 1, 2008. Further details regarding the change in financial year, including the Company's interim reporting periods, are available in the Company's Notice of Change of Year-End, a copy of which is available at [www.sedar.com](http://www.sedar.com).

On June 11, 2009, the Company changed its auditors from KPMG LLP to Collins Barrow Calgary LLP.

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

## RESULTS OF OPERATIONS

### Production

Novus' average daily production for the third fiscal quarter of 2009 was 327 boe/d, up slightly from the 306 boe/d recorded in the previous quarter and up significantly from the 248 boe/d recorded in the third fiscal quarter of 2008. For the nine month period ended June 30, 2009, the Company's average daily production was 317 boe/d up from 200 boe/d recorded in the first nine months of the 2008 fiscal year.

The figures for the three and nine months ended June 30, 2009 include production from G2 Resources Inc, which the Company acquired through a Plan of Arrangement on July 10, 2008.

<b>Average production</b>	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Natural gas (mcf/d)	1,502	1,231	1,415	973
Oil & liquids (bbls/d)	77	43	81	38
Oil equivalent (boe/d)	327	248	317	200

### Revenue and pricing

Gross production revenue for the three months ended June 30, 2009 was \$804,001 versus \$1,433,031 in the comparative three month period. For the nine month period ended June 30, 2009, gross production revenue was \$2,967,428 versus \$2,922,911 a year ago. In general, increases in revenue due to increased production volumes were offset by reduced commodity prices for both oil and natural gas.

<b>Sales revenue</b>	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Natural gas	\$ 487,486	\$ 1,073,036	\$ 1,966,410	\$ 2,070,760
Oil & liquids	316,515	359,995	1,001,018	852,231
Total	\$ 804,001	\$ 1,433,031	\$ 2,967,428	\$ 2,922,991

<b>Sales price per unit</b>	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Natural gas (\$/mcf)	3.57	9.58	5.09	7.77
Oil & liquids (\$/bbl)	44.96	92.02	45.24	81.62
Blended (\$/boe)	26.96	63.44	34.31	53.26

## Royalties

	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Crown	\$ (92,191)	\$ 124,136	\$ 250,681	\$ 276,360
Freehold and GOR	114,679	142,435	283,470	263,153
Total	\$ 22,488	\$ 266,571	\$ 534,151	\$ 539,513
Total (per boe)	\$ 0.75	\$ 11.80	\$ 6.18	\$ 9.83

Royalties, which include crown, freehold and overriding royalties paid on oil, liquids and natural gas production, amounted to \$22,488 during the third quarter of 2009 compared to \$266,571 during the third fiscal quarter of 2008. For the nine month period ended June 30, 2009, royalties were \$534,151 compared to \$539,513 a year ago.

As a percentage of production, royalties decreased to 2.8% in the most recent quarter from 18.6% a year ago. Royalties were 18% of production for the nine months ended June 30, 2009 versus 18.5% in the comparative period. The decrease in royalties in the third quarter of 2009 is primarily the result of additional gas cost allowance and custom processing credits recovered through the Company's annual filings.

## Operating costs

Total operating costs for the quarter ended June 30, 2009 amounted to \$510,744, or \$17.13/boe, compared to \$372,488, or \$16.49/boe, during the quarter ended June 30, 2008. For the nine month period ended June 30, 2009 operating costs were \$1,610,292, or \$18.62/boe, compared to \$1,022,525, or \$18.63/boe, a year ago.

## Transportation costs

Total transportation costs for the quarter ended June 30, 2009 amounted to \$35,837, or \$1.20/boe, compared to \$9,192, or \$0.41/boe, during the quarter ended June 30, 2008. For the nine month period ended June 30, 2009 transportation costs were \$104,777, or \$1.21/boe, compared to \$39,420, or \$0.72/boe, a year ago. The properties acquired via the Plan of Arrangement with G2 in July 2008 were associated with higher transportation costs.

## Operating netbacks

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

Netback per boe	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Revenue	\$ 26.96	\$ 63.44	\$ 34.31	\$ 53.26
Royalties	(0.75)	(11.80)	(6.18)	(9.83)
Operating costs	(17.13)	(16.49)	(18.62)	(18.63)
Transportation	(1.20)	(0.41)	(1.21)	(0.72)
Operating netbacks	\$ 7.88	\$ 34.74	\$ 8.30	\$ 24.08

The operating netback for the three months ended June 30, 2009 was \$7.88/boe compared to \$34.74/boe for the same period in 2008. For the nine month period ending June 30, 2009, Novus' operating netback was \$8.30/boe versus \$24.08/boe in the comparative period. The largest reason for the declines was the reduction in overall commodity prices.

## General and administrative expenses

Total general and administrative expenses during the third fiscal quarter of 2009 amounted to \$706,937 compared to \$227,243 a year ago. For the nine months ended June 30, 2009, general and administrative expenditures were \$2,754,978 versus \$719,388 in the comparative period. The comparative figures do not include the combined administrative costs subsequent to the Plan of Arrangement with G2 Resources Inc., while the current year-to-date figures include \$636,892 in reorganization costs leading up to and including the March 31, 2009 change in management, and \$237,595 in bad debts. The following is a breakdown of the costs included in general and administrative expenditures:

	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Recurring expenditures	\$ 658,149	\$ 210,052	\$ 1,880,872	\$ 727,067
Bad debts	(70)	29,953	237,595	29,953
Reorganization costs	-	-	636,892	-
Merger and acquisition activity	61,665	-	61,665	-
Recoveries	(12,807)	(12,762)	(62,046)	(37,632)
	\$ 706,937	\$ 227,243	\$ 2,754,978	\$ 719,388

## Interest expense

Interest expense for the three months ended June 30, 2009 was \$1,435 compared to \$73,506 a year ago. For the nine months ended June 30, 2009, interest expense was \$83,493, versus \$169,761 in the comparative period. The reduction in interest expense is the result of Company using a portion of the proceeds of the March 31, 2009 private placement financing to pay off its bank debt.

## Stock-based compensation

The Company accounts for stock-based compensation using the fair-value method. Under this method, compensation expense is recorded in the statement of operations over the vesting terms of the options. During the third quarter of fiscal 2009, \$10,558 of stock-based compensation expense was recognized. For the nine months of the fiscal year, the Company recorded \$58,194 in stock-based compensation expense. These figures compare to \$nil and \$27,522 for the three and nine month periods in 2008, respectively.

## Depletion and depreciation

Total depletion and depreciation expense for the quarter ended June 30, 2009 amounted to \$905,933 compared to \$541,671 for the quarter ended June 30, 2008. For the nine months periods ended June 30, the figures were \$9,651,825 in 2009 and \$1,307,790 in 2008. As at March 31, 2009, the Company performed stage one of the ceiling test calculation which indicated its undiscounted future net revenues from proved reserves, plus carrying values for undeveloped land less impairment allowances, were less than the carrying value of its oil and gas assets. Consequently, the Company performed stage two of the ceiling test calculation which indicated its future net revenues from proved and probable reserves discounted at 5%, plus carrying values for undeveloped land less impairment allowances, were less than the carrying value of its oil and gas assets. As a result of the ceiling test calculations, the Company recorded an impairment provision of \$7,000,000 at March 31, 2009.

## Income taxes

Current taxes of \$2,478 for the most recently completed quarter are the result of the Saskatchewan Resource Surcharge ("SRS") on the Company's Saskatchewan production revenues. The \$16,663 charge for the nine month period ended June 30, 2009 is also the result of the SRS and includes adjustments based on predecessor company filings.

A schedule of the Company's estimated tax pools at June 30, 2009 is outlined below:

Classification	Amount
Non-capital losses	\$ 31,023,000
Scientific research and development	18,900,000
Canadian development expenditures	14,208,000
Canadian oil and gas property expenditures	13,525,000
Capital cost allowance	13,322,000
Canadian exploration expenditures	13,105,000
Shares issue and other costs	2,796,000
	\$ 106,879,000

Of the \$31,023,000 in non-capital losses, \$9,767,000 expire September 30, 2009, \$5,721,000 expire September 30, 2010, and the remainder expire between 2014 and 2029.

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

	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net income (loss)	\$ (1,415,172)	\$ (91,706)	\$ (11,923,469)	\$ (1,005,461)
Per share - basic & diluted	-	-	(0.05)	(0.02)
Funds flow from (used in) operations <sup>(1)</sup>	(475,918)	484,031	(2,136,896)	432,384
Per share - basic & diluted	-	0.01	(0.01)	0.01
Cash flow from (used in) operations	511,485	145,732	(1,997,939)	341,340
Per share - basic & diluted	-	-	(0.01)	0.01
Weighted average shares outstanding	427,550,209	48,137,590	243,566,693	48,137,590

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

### Capital expenditures

During the third fiscal quarter of 2009, the Company recorded \$328,639 of net capital expenditures compared to \$(206,060) during the third fiscal quarter of 2008. For the nine month period ended June 30, 2009, capital expenditures were \$1,928,525 versus \$1,143,907 a year ago. A breakdown of these expenditures is outlined below:

	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Land acquisition / retention	\$ 63,928	\$ 1,176	\$ 184,072	\$ 6,481
Geological, geophysical and seismic	-	-	382,533	12,350
Drilling and completions	56,049	(7,436)	647,808	891,872
Equipping and tie-ins	186,597	53,059	637,152	973,304
Property acquisitions / dispositions	-	(252,859)	52,479	(741,400)
Furniture and fixtures	22,065	-	24,481	1,300
Total expenditures	\$ 328,639	\$ (206,060)	\$ 1,928,525	\$ 1,143,907

Capital expenditures in the most recently completed quarter focused on upgrading the battery at Cardiff, Alberta, and acquiring land and recompleting a well at Thorsby, Alberta. In the comparative quarter, the

Company installed wellsite facilities at Eight Mile, British Columbia and sold its interests at Atlee Buffalo, Alberta.

## LIQUIDITY AND CAPITAL RESOURCES

### Capital structure

The Company considers its capital structure to include share capital, working capital, and bank debt. The Company manages its capital structure in order to meet its financial obligations, and to support the exploration and development of its existing properties. The Company's Officers are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information including budgets and forecasts. The Company's Directors are responsible for overseeing this process. Methods used by the Company to manage its capital include the issuance of new share capital and warrants which have historically been accomplished through private placements. There were no changes in the Company's approach to capital management during the quarter.

The Company's share capital is not subject to any external restrictions, however its credit facility is subject to periodic reviews. The Company's credit facility is also subject to a covenant that requires the Company to maintain a working capital ratio, as defined by the bank, of no less than 1:1. The Company was in compliance with this requirement at June 30, 2009, as the ratio was 5.6:1.

### Equity instruments

On March 31, 2009, the Company completed a private placement financing of 277,500,000 units at \$0.05 per unit for gross proceeds of \$13,875,000 (net \$12,658,483). Under the terms of the financing, each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to acquire an additional common share at a price of \$0.075 to be adjusted upwards on an equivalent basis for the consolidation of the common shares pursuant to customary adjustment provisions. The term of the warrant is 36 months, provided however, that if at any time from four months after closing, the daily volume-weighted average trading price of the common shares on the TSX-V exceeds \$0.12 (on a pre-consolidated basis) for 25 consecutive trading days and the Company gives written notice to the warrant holders within ten trading days of the end of such period, the expiry date will be reduced to 30 days from the giving of notice.

As at June 30, 2009, the Company had the following equity instruments outstanding:

Common shares outstanding	427,550,209
Common shares issuable upon exercise of outstanding warrants	301,651,000
Common shares issuable upon the exercise of outstanding stock options	5,098,330
<b>Total equity instruments outstanding</b>	<b>734,299,539</b>

The following table summarizes the outstanding warrants by expiry date:

<u>Date of Issue</u>	<u>Number of warrants</u>	<u>Exercise Price</u>	<u>Date of Expiry</u>
Jul 17, 2007	1,850,000	\$0.35	Jul 16, 2009
Jul 10, 2008	22,301,000	\$0.26	Jul 10, 2010
Mar 31, 2009	277,500,000	\$0.075	Mar 31, 2012
	<b>301,651,000</b>		

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

<u>Date of Grant</u>	<u>Number of options</u>	<u>Exercise Price</u>	<u>Date of Expiry</u>
Jan 1, 2006	350,000	\$0.95	Jan 1, 2011
Feb 12, 2007	500,000	\$0.30	Feb 12, 2012
Jul 16, 2008	4,248,330	\$0.20	Jul 16, 2013
	<b>5,098,330</b>		

As of the date of this MD&A, the Company had the follow equity instruments outstanding:

Common shares outstanding	42,754,968
Common shares issuable upon exercise of outstanding warrants	29,980,100
Common shares issuable upon the exercise of outstanding stock options	509,833
<b>Total equity instruments outstanding</b>	<b>73,244,901</b>

The following table summarizes the outstanding warrants by expiry date:

Date of Issue	Number of warrants	Exercise Price	Date of Expiry
Jul 10, 2008	2,230,100	\$2.60	Jul 10, 2010
Mar 31, 2009	27,750,000	\$0.75	Mar 31, 2012
	<b>29,980,100</b>		

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

Date of Grant	Number of options	Exercise Price	Date of Expiry
Jan 1, 2006	35,000	\$9.50	Jan 1, 2011
Feb 12, 2007	50,000	\$3.00	Feb 12, 2012
Jul 16, 2008	424,833	\$2.00	Jul 16, 2013
	<b>509,833</b>		

The difference between the June 30, 2009 figures and the ones as of the date of this MD&A reflect the expiration of warrants on July 16, 2009 and the 10:1 share consolidation that took effect on August 5, 2009, including the elimination of fractional shares.

### **Working capital and bank debt**

At June 30, 2009, the Company had positive working capital of \$5,460,991 compared to a deficiency of \$3,099,567 at September 30, 2008. Components of the working capital (deficiency) are contained in the following table:

	June 30, 2009	September 30, 2008
Cash and cash equivalents	\$ 5,360,853	\$ -
Accounts receivable	1,460,660	2,298,600
Deposits and prepaid expenses	324,635	484,460
Bank debt	-	(2,593,819)
Accounts payable and accrued liabilities	(1,685,157)	(3,288,808)
<b>Total working capital (deficiency)</b>	<b>\$ 5,460,991</b>	<b>\$ (3,099,567)</b>

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

At June 30, 2009 the Company had no bank debt. The Company has available a revolving operating demand facility of \$2,250,000 which bears interest at the bank prime rate plus one and one-quarter percent. The above facility is secured by a general assignment of book debts and a \$15,000,000 debenture with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges on the Company's major producing petroleum properties. The credit facility is subject to a covenant that requires the Company to maintain a working capital ratio, as defined by the bank, of no less than 1:1. The Company was in compliance with this requirement at June 30, 2009, as this ratio was 5.6:1. The next scheduled review is to take place on or before October 1, 2009.

## COMMITMENTS AND CONTINGENCIES

At June 30, 2009, the Company had commitments for lease payments for office space expiring in December, 2009 totaling \$141,000 for 2009.

At June 30, 2009, the Company had commitments for rental compressors totaling \$61,806 in 2009. These rental agreements are subject to 30 days cancellation notices.

Canada Revenue Agency (“CRA”) has conducted an audit of transfer pricing on international transactions between SiberCore Technologies Incorporated and its United States subsidiary, SiberCore America Inc. for the years 2000, 2001 and 2002. SiberCore Technologies Incorporated was the predecessor company of Azeri Capital Inc. and ultimately Novus Energy Inc. The Company has received a proposed settlement letter from CRA that would result in a reduction of tax pools in the amount of \$1,501,453. CRA has also proposed to charge a cash penalty of approximately \$150,000. The Company has responded to the proposed settlement letter and provided further information supporting management’s view that CRA’s position has no merit and intends to object to any notice of assessment that may be received. The outcome of this audit is uncertain at this time and as such no provisions have been made in these financial statements.

## RELATED PARTY TRANSACTION

Pursuant to the March 31, 2009 private placement, the Company paid a fee of 1% of the gross proceeds of the financing, or \$138,750, to Nova Bancorp Securities Ltd for the provision of certain advisory services in connection with the private placement. Harry Knutson and Richard Wlodarczak, who were both directors of the Company at the time of the private placement, are also directors, officers, and shareholders of Nova Bancorp Securities Ltd. The transaction was in the normal course of business and has been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## SUMMARY OF QUARTERLY RESULTS

(000s, except per boe amounts)	Three months ended Jun 30, 2009	Three months ended Mar 31, 2009	Three months ended Dec 31, 2008	Three months ended Sep 30, 2008
Petroleum and natural gas sales	\$ 804	\$ 911	\$ 1,252	\$ 2,001
Net loss	1,415	9,147	1,361	2,080
Funds flow from (used in) operations	(476)	(1,379)	(282)	(476)
Capital expenditures, net	329	220	1,380	2,720
Average daily production (boe/d)	327	306	316	365
Average selling price (\$/boe)	26.96	33.05	43.04	59.53
Operating netback (\$/boe)	7.88	2.23	14.49	25.61
Weighted average shares outstanding	427,550	153,134	150,050	138,973

  

(000s, except per boe amounts)	Three months ended Jun 30, 2008	Three months ended Mar 31, 2008	Three months ended Dec 31, 2007	Three months ended Sep 30, 2007
Petroleum and natural gas sales	\$ 1,433	\$ 798	\$ 692	\$ 533
Net loss	92	416	498	3,126
Funds flow from (used in) operations	484	10	(62)	24
Capital expenditures, net	(206)	(40)	1,390	1,219
Average daily production (boe/d)	248	173	180	154
Average selling price (\$/boe)	63.44	50.73	41.78	37.69
Operating netback (\$/boe)	34.74	20.87	12.59	13.56
Weighted average shares outstanding	48,138	48,138	48,138	46,813

Volumes increased in the last half of fiscal 2008, primarily due to production increases at Eight Mile, BC and volumes associated with the G2 Plan of Arrangement in the third and fourth quarters respectively. Generally speaking, production revenues are a function of sales volumes and commodity prices. Funds flow from (used in) operations starts with production revenues and is also affected by royalties, operating and transportation costs, general and administrative expenditures and current taxes. The increase in funds flow from operations in the three months ended June 30, 2008 was primarily the result of higher commodity prices, while the reduction in the following quarter was due severance costs associated with the G2 Plan of Arrangement and year-end administrative costs, such as audit and engineering fees. The funds flow used in operations in the three months ended March 31, 2009 was impacted by severance costs associated with the change of management in March, 2009.

The net loss for the quarter ended September 30, 2007 included a \$3,300,000 ceiling test write-down and the net loss for the quarter ended September 30, 2008 increased from prior fiscal quarters due to the change in funds flow from operations and higher depletion charges associated with the increased asset base pursuant to the G2 Plan of Arrangement in July of 2008. The net loss for the three months ended March 31, 2009 included higher funds flow used in operations and a \$7,000,000 ceiling test write-down.

## SELECTED ANNUAL FINANCIAL INFORMATION

(000s, except per share amounts)	Year ended September 30, 2008	Year ended September 30, 2007	Year ended September 30, 2006
Production revenue	\$ 4,924	\$ 2,010	\$ 1,166
Net income (loss)	(3,086)	(4,387)	(5,627)
per share - basic & diluted	(0.04)	(0.12)	(0.29)
Funds flow from (used in) operations	(44)	(157)	(618)
per share - basic & diluted	-	-	(0.03)
Total assets	31,176	11,716	9,485
Total long-term liabilities	951	398	287

## CHANGES IN ACCOUNTING POLICIES

### Adoption of new accounting policies

#### a) Goodwill and intangible assets

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

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

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

### Accounting pronouncements

#### a) International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, the AcSB confirmed the changeover from Canadian GAAP to IFRS will be required for publicly

accountable enterprises effective for fiscal years beginning on or after January 1, 2011. In July 2009, the International Accounting Standards Board adopted certain amendments and exemptions to IFRS 1 including standards relating to the transition to IFRS for resource based companies. Although the Company has not yet completed the development of an IFRS changeover plan, it anticipates completing its project scoping during the latter part of 2009 as the Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS

b) Business combinations

In January 2009, the AcSB issued CICA Handbook Section 1582, “Business Combinations” which replaces previous guidance on business combinations. This Section applies to Business Combinations entered into on or after January 1, 2011 with earlier adoption permitted. The Company will monitor and assess the impact of the new Section on its financial statements and whether or not it will elect to adopt the standards in advance of the transition to IFRS.

c) Consolidated financial statements

In January 2009, the AcSB issued CICA Handbook Section 1601, “Consolidations” and 1602 “Non-controlling Interests”. Section 1601 carries forward the requirements of Section 1600, “Consolidated Financial Statements”, other than those relating to non-controlling interests which would be covered in Section 1602. These standards are effective for annual and interim periods beginning on or after January 1, 2011 with earlier adoption permitted. The Company will monitor and assess the impact of the new Sections on its financial statements and whether or not it will elect to adopt the standards in advance of the transition to IFRS.

d) Financial instruments

In May 2009, the AcSB amended CICA Handbook Section 3862, “Financial Instruments – Disclosures”, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Company on December 31, 2009.

## **CURRENT ECONOMIC CONDITIONS**

Recent market events and conditions, including disruptions in the international credit markets and other financial systems, coupled with the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions are causing a loss of confidence in various markets and have resulted in the collapse of, and government intervention in, major banks, financial institutions and insurers, creating a climate of greater volatility, less liquidity, increased credit losses and tighter credit conditions. Notwithstanding the various actions by governments, concerns about the general conditions of the capital markets, financial instruments, banks, insurers and other financial institutions have caused the broader credit markets to further deteriorate and stock markets to decline significantly. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. Commodity prices are expected to remain volatile for the near future over uncertainties with supply and demand due to the current state of world economies and global credit and liquidity concerns.