



Novus Energy Inc  
(formerly Regal Energy Ltd)  
Financial Statements  
December 31, 2009

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## MANAGEMENT'S REPORT

### To the Shareholders of Novus Energy Inc.

The accompanying financial statements of Novus Energy Inc. were prepared by and are the responsibility of management. They have been prepared in conformity with Canadian generally accepted accounting principles.

Management maintains systems of internal accounting controls designed to provide reasonable assurance that all transactions are properly recorded in the Company's book of accounts, that procedures and policies are adhered to and that assets are safeguarded from unauthorized use.

Collins Barrow Calgary LLP, the external auditors of the Company, conducts an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes such tests and procedures considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Audit Committee of Novus Energy Inc., comprised of independent directors, has met with representatives of Collins Barrow Calgary LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. On the recommendation of the Audit Committee, the financial statements have been approved by the Board of Directors.

(signed) "*Hugh G. Ross*"

Hugh G. Ross  
President and Chief Executive Officer

(signed) "*Ketan Panchmatia*"

Ketan Panchmatia  
VP Finance and Chief Financial Officer

Calgary, Alberta  
April 22, 2010

## AUDITORS' REPORT

To the Shareholders  
Novus Energy Inc.

We have audited the balance sheet of Novus Energy Inc. (formerly Regal Energy Ltd.) as at December 31, 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the fifteen month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at September 30, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated January 27, 2009.

(signed) "*Collins Barrow Calgary LLP*"

Chartered Accountants

Calgary, Canada

April 9, 2010, except as to note 16 which is as of April 22, 2010

Novus Energy Inc  
(formerly Regal Energy Ltd)  
Balance Sheets

	December 31, 2009	September 30, 2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 22,142,578	\$ -
Accounts receivable	2,512,175	2,298,600
Deposits and prepaid expenses	442,120	484,460
	25,096,873	2,783,060
<b>Investment</b>	15,000	-
<b>Intangible assets</b>	-	24,993
<b>Future income taxes (note 10)</b>	4,222,807	-
<b>Property and equipment (note 5)</b>	45,387,237	28,367,818
<b>Goodwill (note 4)</b>	5,914,576	-
	\$ 80,636,493	\$ 31,175,871
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 5,674,197	\$ 3,288,808
Bank debt (note 6)	-	2,593,819
	5,674,197	5,882,627
<b>Asset retirement obligations (note 8)</b>	2,384,903	950,799
	8,059,100	6,833,426
Commitments and contingencies (note 15)		
Subsequent events (notes 7(c), 15 and 16)		
<b>SHAREHOLDERS' EQUITY</b>		
<b>Equity instruments (note 7)</b>	156,531,431	93,641,650
<b>Contributed surplus (note 7(g))</b>	3,599,900	2,298,280
<b>Deficit</b>	(87,553,938)	(71,597,485)
	72,577,393	24,342,445
	\$ 80,636,493	\$ 31,175,871

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  
(formerly Regal Energy Ltd)  
Statements of Operations, Comprehensive Loss and Deficit

	For the fiscal year ended December 31, 2009	For the fiscal year ended September 30, 2008
	(note 1)	
<b>REVENUE</b>		
Production revenue	\$ 4,962,382	\$ 4,924,134
Royalties	(836,965)	(1,017,016)
	<b>4,125,417</b>	<b>3,907,118</b>
<b>EXPENSES</b>		
Operating	2,829,911	1,642,480
Transportation	192,570	82,360
General and administrative (note 9)	4,520,860	2,006,507
Interest	90,227	219,555
Stock-based compensation (note 7(f))	465,410	596,848
Depletion and depreciation (note 5)	11,832,023	2,307,690
Accretion	109,173	37,360
Amortization of intangible assets	24,993	99,973
	<b>20,065,167</b>	<b>6,992,773</b>
<b>Loss before income taxes</b>	<b>(15,939,750)</b>	<b>(3,085,655)</b>
Current income taxes (note 10)	16,703	-
<b>Net loss and comprehensive loss for the period</b>	<b>(15,956,453)</b>	<b>(3,085,655)</b>
<b>Deficit, beginning of period</b>	<b>(71,597,485)</b>	<b>(68,511,830)</b>
<b>Deficit, end of period</b>	<b>\$ (87,553,938)</b>	<b>\$ (71,597,485)</b>
<b>Net loss per share</b>		
Basic and diluted (note 7(h))	\$ (0.45)	\$ (0.43)

See accompanying notes.

Novus Energy Inc  
(formerly Regal Energy Ltd)  
Statements of Cash Flows

<b>CASH PROVIDED BY (USED IN)</b>	<b>For the fiscal year ended December 31, 2009</b>	<b>For the fiscal year ended September 30, 2008</b>
	(note 1)	
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (15,956,453)	\$ (3,085,655)
Non-cash and other items:		
Stock-based compensation	465,410	596,848
Depletion and depreciation	11,832,023	2,307,690
Accretion	109,173	37,360
Amortization of intangible assets	24,993	99,973
Asset retirement expenditures	(308,099)	(5,161)
Change in non-cash working capital (note 11)	282,712	762,460
	<b>(3,550,241)</b>	<b>713,515</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of bank debt, net	(3,576,595)	(1,655,170)
Proceeds from issuance of equity instruments, net of issuance costs	40,651,151	5,437,656
Proceeds from bridge financing (note 13)	-	440,000
Repayment of bridge financing (note 13)	-	(440,000)
Change in non-cash working capital (note 11)	201,964	-
	<b>37,276,520</b>	<b>3,782,486</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures, net	(11,921,743)	(2,202,718)
Cash paid on corporate acquisitions (note 4)	(222,351)	(396,976)
Change in non-cash working capital (note 11)	560,393	(1,896,307)
	<b>(11,583,701)</b>	<b>(4,496,001)</b>
<b>Increase in cash and cash equivalents</b>	<b>22,142,578</b>	<b>-</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 22,142,578</b>	<b>\$ -</b>

See accompanying notes.

Supplemental cash flows disclosure – note 11

## **1. Description of business**

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Novus Energy Inc. (formerly Regal Energy Ltd., and referred to as “Novus” or the “Company”) is engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in Western Canada.

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

On March 31, 2009, the Company appointed new management and restructured the Board of Directors.

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

The Company changed its fiscal year end from September 30 to December 31 effective October 1, 2008. As a result, the Company’s current fiscal year end is the fifteen month period ending December 31, 2009.

On December, 11, 2009, Novus acquired all of the issued and outstanding common shares of Ammonite Energy Ltd. (“Ammonite”) pursuant to a plan of arrangement (note 4). The companies were amalgamated on December 11, 2009 and the amalgamated entity continued under the name Novus Energy Inc.

## **2. Accounting policies**

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The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. These financial statements have, in the opinion of management, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

### **a) Principles of consolidation**

These financial statements include the accounts of the Company and its wholly owned subsidiary, G2, from July 10, 2008, when it was acquired, until October 1, 2008, at which time G2 was amalgamated with the Company.

### **b) Cash and cash equivalents**

Cash and cash equivalents consist of amounts on deposit with banks and investments in term deposits with maturities of three months or less at the date of purchase.

### **c) Petroleum and natural gas expenditures**

#### *Cost*

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves, including asset retirement costs, are initially capitalized into cost centres by country. Such costs include land acquisition costs, geological and geophysical expenses, costs of drilling both

productive and non-productive wells, gathering and production facilities, lease rentals on non-producing properties, production equipment, asset retirement costs and overhead charges directly related to acquisition, exploration and development activities. Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such sale would result in a greater than 20% change in the depletion rate.

*Depletion and depreciation*

Depletion of petroleum and natural gas properties and depreciation of production equipment is provided for using the unit-of-production method by cost centre based upon the Company's share of estimated proved petroleum and natural gas reserves as determined by independent petroleum engineers and updated internally for interim reporting periods. For the purposes of the calculation, petroleum and natural gas reserves and production are converted to a common unit of measurement on the basis of their relative energy content, whereby six thousand cubic feet of natural gas is equivalent to one barrel of oil. In determining costs subject to depletion, the Company includes estimated future costs to be incurred in developing proved reserves and excludes salvage values.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion.

*Impairment*

The Company applies a two-stage ceiling test to determine that the carrying value in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre. At the first stage, the carrying value is deemed to be recoverable if the sum of the undiscounted cash flows from the production of proved reserves plus the cost, less any impairment, of unproved properties and the cost of major development projects exceeds the carrying value of the cost centre. If the carrying value is not deemed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the cost, less any impairment, of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using future commodity prices and costs and are discounted using a risk-free interest rate.

d) Other assets

Furniture, fixtures, office equipment and other assets are depreciated over their estimated useful lives on a straight line basis ranging from three to five years.

e) Goodwill

The Company records goodwill when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair value. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the value might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the goodwill is compared to its fair value. When the fair value exceeds the carrying amount, goodwill is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the Company's goodwill exceeds its fair value, in which case the implied fair value of the Company's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, by assigning fair values to the Company's identifiable assets and liabilities. When the carrying amount of the Company's goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to the excess. Goodwill is not deductible for tax purposes.

f) Intangible assets

The costs of intangible assets are tested for impairment annually and are excluded from the depletion calculation. Intangible assets are amortized over their expected useful life.

g) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit-adjusted risk-free interest rate. The obligation is reviewed regularly based upon current regulations, costs, technologies, and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related property and depleted on the same basis as the remainder of the property and equipment. The liability is accreted against income until it is settled or the property is sold. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligation are charged against the accumulated obligation as incurred.

h) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the accounting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset unless it is considered to be more likely than not that the asset will be realized. Corporate tax returns are subject to audit and reassessment by the Canada Revenue Agency ("CRA"). The results of any reassessment will be accounted for in the year in which they are determined.

i) 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. To recognize the tax benefits renounced by the Company, the carrying value of the shares issued is reduced, and the future income tax liability of the Company is increased, by the estimated value of the renounced income tax deductions when the related flow-through expenditures are renounced to the subscribers and with the CRA.

j) Revenue recognition

Revenue from the sale of petroleum, natural gas and liquids is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating, transportation and royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

k) Stock-based compensation plans

The Company has stock options and performance warrants as described in notes 7(d) and 7(e) respectively.

The Company accounts for stock options granted to employees, directors and consultants using the fair value method of accounting. Under this method, stock-based compensation is recorded as an expense over the vesting terms of the options, with a corresponding increase recorded as contributed surplus. Stock-based compensation expense is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option pricing model. When stock options are exercised, the consideration received, along with the corresponding amounts previously recorded in contributed surplus, are credited to share capital.

Stock-based compensation expense for performance warrants is calculated using the Black-Scholes option pricing model and recorded based on the more likely than not outcome of the vesting requirements, with an expense being recognized over the vesting terms of the performance warrants if those terms are more likely than not 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.

l) Per share information

Basic per share amounts are calculated using the total weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated using the treasury stock method, whereby it is assumed that proceeds from the exercise of in-the-money potentially dilutive securities plus the unamortized portion of stock-based compensation expense are used by the Company to repurchase Company shares at their weighted average market price for the period.

m) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are recognized on the balance sheet at the time the Company becomes a party to the contractual provisions.

All of the Company's financial instruments are initially recognized at fair value on the balance sheet date. The Company classifies each financial instrument into the following categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale, and other liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held-for-trading financial instruments are recognized in earnings. Gains and losses on available-for-sale financial assets are recognized in other comprehensive income and transferred to earnings when the asset is derecognized. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

<b>Financial Instrument</b>	<b>Category</b>	<b>Measurement Method</b>
Cash and cash equivalents	Held-for-trading	Fair value
Investment	Held-for-trading	Fair value
Accounts receivable and deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank debt	Other liabilities	Amortized cost

Transaction costs are expensed as incurred for all financial instruments.

The Company may use derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign currency exchange rates, interest rates and power costs. The Company does not utilize derivative financial instruments for speculative purposes. Derivative financial instruments, if any, are classified as held-for-trading. Derivatives are to be measured at fair value and

unrealized gains and losses reported in the statement of operations unless the “normal sale and purchase” exemption is utilized or the derivatives are designated as cash flow or net investment hedges. All changes in fair value are included in earnings unless cash flow hedge or net investment accounting is used, in which case changes in fair value are recorded in other comprehensive income to the extent the hedge is effective, and in earnings to the extent it is ineffective. The Company has not entered into any derivative financial instruments during fiscal 2008 or 2009 and does not apply hedge accounting.

An embedded derivative is a component of a contract that affects the terms in relation to another factor. These hybrid contracts are considered to consist of a "host" contract plus an embedded derivative. The embedded derivative is separated from the host contract and accounted for as a derivative which requires separate recognition and measurement. The Company has not identified any embedded derivatives in any of its financial instruments.

The Company will assess at each reporting period whether there is any objective evidence that a financial asset is impaired.

The Company utilizes the following fair value hierarchy to prioritize the inputs to valuation techniques used to measure fair value:

*Level 1*

Values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

*Level 2*

Values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3*

Values are based on prices or valuations techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

n) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates relate primarily to unsettled transactions and events as of the date of financial statements, and actual results could differ from these estimates.

Amounts recorded for depletion, depreciation, accretion and amounts used for the ceiling test calculation are based on estimates of petroleum and natural gas reserves, production rates, future petroleum and natural gas prices, and future costs. The Company's reserve estimates are evaluated annually by an independent qualified reserve engineering firm pursuant to the parameters and guidelines stipulated under National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.

The determination of stock-based compensation expense involves estimates of the volatility of the Company's common shares, forfeiture rates, expected lives of the underlying securities, expected dividends, timing and likelihood of performance warrants vesting and other relevant assumptions.

The value of asset retirement obligations depends on estimates of current market interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Amounts recorded from joint venture partners are based on the Company's interpretation of underlying agreements and may be subject to joint approval. The Company has recorded balances due from its joint venture partners based on costs incurred and its interpretation of allowable expenditures. Any adjustment required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

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

The availability of tax pools is subject to audit and interpretation by the CRA. The future income tax asset and valuation allowance represent management's best estimates. Estimates are based on 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 commodity prices, and changes in legislation, tax rates and interpretations by taxation authorities.

The purchase price allocation of net assets from business combinations (note 4) are based on estimates of numerous factors including proved and probable reserves, future petroleum and natural gas prices, discount rates and other factors.

By their nature, these estimates are subject to measurement uncertainty and the effects of changes in such estimates on the financial statements of future periods could be material.

o) Joint interest operations

Substantially all of the Company's exploration and production activities are conducted jointly with others, and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

### **3. Changes in accounting policies and new accounting pronouncements**

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#### Adoption of new accounting policies

a) Goodwill and intangible assets

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

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

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

c) Financial instrument disclosure

In June 2009, the Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board ("AcSB") amended CICA Handbook Section 3862, "Financial Instruments – Disclosures" to include

additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. These amendments are effective for annual financial statements for fiscal years ending after September 30, 2009. The Company has included these incremental disclosures in note 12.

#### Accounting pronouncements

##### a) International Financial Reporting Standards (“IFRS”)

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

Although the Company has not yet completed the development of an IFRS changeover plan, it anticipates completing its project scoping during the second quarter of 2010 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. This standard outlines new guidance which states that the purchase price is to be based on trading data at the closing date of the acquisition, not the announcement date, and that most acquisition costs are to be expensed as incurred. The Company has elected to adopt the standards effective January 1, 2010, in advance of the transition to IFRS and the adoption of this standard will impact the Company’s financial statements for future business combinations (note 16). The Company has elected to early adopt this standard in the first quarter of 2010, as it substantially aligns with IFRS.

##### c) Consolidated financial statements

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

#### **4. Business combinations**

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##### *Ammonite Energy Ltd.*

On December 11, 2009 the Company acquired all of the issued and outstanding common shares of Ammonite Energy Ltd., (“Ammonite”). As consideration, the Company issued 32,278,884 common shares at an ascribed value of \$0.69 per common share. The ascribed value was determined based on the Company’s five day weighted average trading price on the TSX Venture Exchange both before and after the announcement of the transaction on October 14, 2009. The Company also issued 1,548,012 warrants with an ascribed value of \$0.0022 per warrant based upon the Black-Scholes option pricing model using the

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Notes to the Financial Statements  
For the fiscal years ended December 31, 2009 and September 30, 2008

following assumptions: risk-free rate of 1.2%; expected volatility of 90%; expected dividend of 0%; and an expected life of 0.1 years. The acquisition was accounted for using the purchase method of accounting as follows:

Consideration:	
Common shares issued	\$ 22,272,430
Warrants issued	3,411
Transaction costs	222,351
	\$ 22,498,192
Fair value of assets and liabilities acquired:	
Property and equipment	\$ 15,195,500
Investment	15,000
Future income tax asset	1,237,021
Future income tax asset not previously recognized	2,985,786
Goodwill	5,914,576
Bank debt	(982,776)
Working capital deficiency, excluding bank debt	(1,169,086)
Asset retirement obligations	(697,829)
	\$ 22,498,192

The attributed values of the common shares and warrants have been excluded from the statement of cash flows as non-cash transactions. The accounts of the Company include the results of Ammonite from December 11, 2009.

As a result of the acquisition, the Company evaluated estimated consolidated future cash flows based on proved producing reserves from independent engineers, and has determined that it is more likely than not to recognize future tax assets on certain tax pools of the Company that were previously unrecognized.

*G2 Resources Inc.*

On July 10, 2008 the Company acquired all of the issued and outstanding common shares of G2. As consideration, the Company issued 7,276,262 common shares at an ascribed value of \$1.87 per common share. The ascribed value was determined based on the Company's two day weighted average trading price on the TSX Venture Exchange both before and after the announcement of the transaction. The Company also issued 836,069 warrants with an ascribed value of \$nil per warrant based upon the Black-Scholes option pricing model using the following assumptions: risk-free rate of 3.0%; expected volatility of 100%; expected dividend of 0%; and an expected life of 0.7 years. The transaction was accounted for using the purchase method of accounting as follows:

Consideration:	
Common shares issued	\$ 13,606,610
Warrants issued	-
Transaction costs	396,976
	\$ 14,003,586
Fair value of assets and liabilities acquired:	
Property and equipment	\$ 17,903,745
Other assets	232,586
Bank debt	(3,170,632)
Working capital deficiency, excluding bank debt	(332,922)
Asset retirement obligations	(629,191)
	\$ 14,003,586

The attributed values of the common shares and warrants have been excluded from the statement of cash flows as non-cash transactions. The accounts of the Company include the results of G2 from July 10, 2008.

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The Company did not record a future tax asset on the acquisition of G2 because the Company applied a full valuation allowance on its own future income tax assets.

**5. Property and equipment**

	Dec 31, 2009	Sep 30, 2008
Petroleum and natural gas properties including exploration and development thereon	\$ 68,728,194	\$ 39,948,844
Other assets	371,123	299,032
	\$ 69,099,317	\$ 40,247,876
Accumulated depletion and depreciation	(23,712,080)	(11,880,058)
	\$ 45,387,237	\$ 28,367,818

Costs of unproved properties in the amount of \$4,899,955 (2008 – \$4,333,860) were excluded from depletable costs. Future development costs of \$12,692,000 (2008 – \$5,617,000) were included in depletable costs. The Company did not capitalize any general and administrative expenditures during the fiscal year ended December 31, 2009 (2008 – \$nil).

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

As at December 31, 2009, the Company performed a ceiling test calculation. Stage one of the test indicated its undiscounted future net revenue from proved reserves plus the carrying value of unproved properties were less than the carrying value of its oil and gas assets. Consequently, the Company performed stage two of the ceiling test calculation which indicated its future net revenue from proved and probable reserves, discounted at 5%, plus the carrying value of unproved properties, were greater than the carrying value of its oil and gas assets. No further impairment was required.

The following table outlines the benchmark reference prices used in the ceiling test calculations:

	Dec 31, 2009			Mar 31, 2009		
	Edmonton Light Crude \$Cdn/BBL	Hardisty Bow River Crude \$Cdn/BBL	AECO Natural Gas \$Cdn/MMBTU	Edmonton Light Crude \$Cdn/BBL	Hardisty Bow River Crude \$Cdn/BBL	AECO Natural Gas \$Cdn/MMBTU
2009 (Apr-Dec)	n/a	n/a	n/a	66.79	54.69	4.94
2010	84.25	76.67	5.36	73.61	56.68	6.93
2011	89.99	80.99	6.21	81.29	61.78	7.71
2012	92.61	81.49	6.44	85.99	65.35	7.97
2013	96.19	83.68	7.23	90.92	69.10	8.16
2014	98.13	84.39	7.98	97.84	74.36	8.47
2015	100.11	86.10	8.16	99.82	75.86	8.75
2016	102.13	87.83	8.34	101.83	77.39	8.94
2017	104.19	89.61	8.52	103.89	78.96	9.13
2018	106.30	91.42	8.71	105.99	80.55	9.33
2019	108.44	93.26	8.90	108.11	82.16	9.52
2020+	2% per year thereafter	2% per year thereafter	2% per year thereafter	2% per year thereafter	2% per year thereafter	2% per year thereafter

Adjustments were made to the benchmark prices, for the purposes of the ceiling test, to reflect varied delivery points and quality differentials in the products delivered.

## 6. Bank debt

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

The effective interest rate for the bank debt for the fiscal year ended December 31, 2009 was 3.94 % (2008 - 5.98%). As the credit facility bears interest at floating rates, the Company is exposed to interest rate risk on outstanding balances.

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

## 7. Equity instruments

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

### 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

<b>Common Shares</b>	<b>Shares</b>	<b>Stated Value</b>
Balance – September 30, 2007	4,813,707	\$ 75,184,831
Issued for cash (note 7(a))	2,750,000	2,900,336
Issued as finder's fee (note 7(a))	165,000	153,186
Issued on business combination (note 4)	7,276,261	13,606,610
Tax impact of flow through share issue	-	(598,500)
Issue costs	-	(569,158)
Balance – September 30, 2008	15,004,968	\$ 90,677,305
Issued for cash (note 7(a))	27,750,000	9,102,000
Issued for cash (note 7(a))	46,200,000	30,030,000
Issued on business combination (note 4)	32,278,884	22,272,430
Issued for asset acquisitions (note 7(b))	850,000	799,000
Issued on exercise of warrants	20,000	18,440
Issue costs	-	(3,268,850)
Balance – December 31, 2009	<b>122,103,852</b>	<b>\$ 149,630,325</b>

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Warrants	Number of Warrants and Underlying Shares	Stated Value
Balance – September 30, 2007	600,581	\$ 496,265
Expired	(215,581)	(308,398)
Issued on private placement (note 7(a))	2,750,000	2,599,664
Issued as a finders fee (note 7(a))	165,000	176,814
Issued on business combination (note 4)	836,069	-
Balance – September 30, 2008	4,136,069	2,964,345
Issued on private placement (note 7(a))	27,750,000	4,773,000
Issued on business combination (note 4)	1,548,012	3,411
Exercised	(20,000)	(3,440)
Expired	(2,458,366)	(91,159)
Cancelled	(884,900)	(745,051)
Balance – December 31, 2009	<b>30,070,815</b>	<b>\$ 6,901,106</b>
Total Equity Instruments		<b>\$ 156,531,431</b>

a) Financings

On July 10, 2008, the Company completed a private placement financing of 2,750,000 units at \$2.00 per unit for gross proceeds of \$5,500,000 (\$4,930,842 net). 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 \$2.60 per common share. The term of the warrant is 24 months, provided however, that if at any time after October 27, 2008, the closing price of the common shares on the TSX-V exceeds \$5.20 for 20 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 date notice is given. The Company paid a finders fee of 6% of the gross proceeds from this financing through the issuance of 165,000 units on the same terms and conditions as the units issued to the subscribers of the financing. The Company also granted the agent for the financing 165,000 compensation options, with such compensation options exercisable into units at a price of \$2.00 per unit, expiring July 10, 2010. The Black-Scholes model was used to value the warrants and compensation options using the following assumptions: risk-free rate of 3%; expected volatility of 100%; expected dividend of 0%; and an expected life of 2 years. The fair value for the warrants and compensation options was \$1.07 per warrant.

On March 31, 2009, the Company completed a private placement financing of 27,750,000 units at \$0.50 per unit for gross proceeds of \$13,875,000 (\$12,658,483 net). Under the terms of the financing, each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to acquire an additional common share at a price of \$0.75 per common share. The term of the warrant is 36 months, provided however, that if at any time from four months after closing, the daily volume-weighted average trading price of the common shares on the TSX-V exceeds \$1.20 for 25 consecutive trading days and the Company gives written notice to the warrant holders within ten trading days of the end of such period, the expiry date will be reduced to 30 days from the giving of notice. The Black-Scholes model was used to value the warrants using the following assumptions: risk-free rate of 1.1%; expected volatility of 103%; expected dividend of 0%; and an expected life of 2 years. The fair value of the warrants was \$0.172 per warrant.

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

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issued on December 22, 2009 pursuant to the deemed exercise of the subscription receipts.

b) Asset acquisition

On December 30, 2009, the Company paid \$1,200,000 and issued 850,000 common shares at a deemed price of \$0.94 in exchange for property and equipment. The value of common shares of \$799,000 issued as partial consideration for the property and equipment has been excluded from the statement of cash flows as a non-cash transaction.

c) Warrants

The following table summarizes warrants outstanding on December 31, 2009:

<b>Date of Expiry</b>	<b>Exercise Price</b>	<b>Number of warrants</b>
Jan 2, 2010 <sup>(1)</sup>	\$ 1.03	54,450
Mar 20, 2010 <sup>(1)</sup>	\$ 1.03	56,265
Jul 10, 2010	\$ 2.60	2,230,100
Mar 31, 2012 <sup>(2)</sup>	\$ 0.75	27,730,000
		<b>30,070,815</b>

(1) Expired subsequent to December 31, 2009 without exercise.

(2) 80,000 warrants have been exercised subsequent to December 31, 2009.

d) Stock options

The Company has a floating stock option plan by which the Company may grant options to directors, officers, employees and consultants for up to 10% of common shares outstanding. Each option permits the holder to purchase one common share of the Company at the stated exercise price. The following tables summarize the status of the Company's stock option plan and the activity during the periods then ended:

	<b>Dec 31, 2009</b>		<b>Sep 30, 2008</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of period	1,337,500	\$ 2.80	295,100	\$ 5.84
Granted	3,075,000	0.60	1,051,000	2.00
Forfeited	(997,500)	2.93	(8,600)	10.00
Balance, end of period	<b>3,415,000</b>	<b>0.78</b>	<b>1,337,500</b>	<b>2.80</b>
Exercisable, end of period	286,668	\$ 2.10	636,832	\$ 3.68

<b>Date of Grant</b>	<b>Number Outstanding at Dec 31, 2009</b>	<b>Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Date of Expiry</b>	<b>Number Exercisable at Dec 31, 2009</b>
Feb 12, 2007	<b>30,000</b>	\$ 3.00	2.12	Feb 12, 2012	<b>30,000</b>
Jul 16, 2008	<b>385,000</b>	2.00	3.54	Jul 16, 2013	<b>256,668</b>
Sep 4, 2009	<b>3,000,000</b>	0.60	4.68	Sep 4, 2014	-
	<b>3,415,000</b>	<b>\$ 0.78</b>	<b>4.53</b>		<b>286,668</b>

Options granted on July 16, 2008 vest 1/3 every twelve months, beginning on the date of grant. Options granted subsequent to July 16, 2008 vest 1/4 every six months, beginning six months from the date of grant.

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e) Performance warrants

The following tables summarize the status of the Company's performance warrants and the activity during the fifteen month period ended December 31, 2009:

	Number of Warrants	Exercise Price
Balance – September 30, 2008	-	\$ -
Granted	4,275,000	0.56
Forfeited	(75,000)	0.56
Balance – December 31, 2009	4,200,000	0.56
Exercisable – December 31, 2009	-	\$ -

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, 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 of NAV per share of 33 1/3%, and all of the performance warrants shall vest upon an increase in NAV per share of 50%. No further performance warrants will be issued.

f) Stock-based compensation expense

The fair value of stock options and performance warrants granted during the period were estimated on the dates of grant using the Black-Scholes option pricing model with the following assumptions:

	Dec 31, 2009		Sep 30, 2008
	Stock options	Performance warrants	Stock options
Risk-free interest rate	2.3%	1.2%	3.2%
Expected volatility	88%	96%	100%
Expected life	4.5 years	2.8 years	5 years
Expected dividend yield	0%	0%	0%
Estimated forfeiture rate	5%	5%	0%
Fair value per option/warrant	\$0.36	\$0.33	\$0.20

Compensation costs of \$465,410 for the fiscal year ended December 31, 2009 (2008 - \$596,848) 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.

g) Contributed surplus

The following table presents changes in contributed surplus during the period:

	Dec 31, 2009	Sep 30, 2008
Balance, beginning of period	\$ 2,298,280	\$ 1,216,220
Stock-based compensation expense	465,410	596,848
Cancellation of warrants	745,051	-
Expiration of warrants	91,159	308,398
Warrants issued as a finders fee	-	176,814
Balance, end of period	\$ 3,599,900	\$ 2,298,280

h) Per share amounts

Basic loss per share is calculated using the weighted average number of common shares of 35,374,283 for the fiscal year ended December 31, 2009 (2008 – 7,103,303). All outstanding options, performance warrants and warrants were excluded from the dilution calculation as they were anti-dilutive for all periods.

**8. Asset retirement obligations**

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The Company's asset retirement obligations are based on the Company's net ownership in wells and facilities and 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 asset retirement obligation:

	<b>Dec 31, 2009</b>	Sep 30, 2008
Asset retirement obligation, beginning of period	\$ 950,799	\$ 397,558
Change in estimates	115,338	(31,191)
Liabilities incurred	146,078	7,761
Liabilities acquired on property acquisitions	673,785	-
Liabilities acquired on business combinations (note 4)	697,829	629,191
Liabilities disposed	-	(84,719)
Liabilities settled	(308,099)	(5,161)
Accretion expense	109,173	37,360
Asset retirement obligation, end of period	\$ 2,384,903	\$ 950,799

The inflated, undiscounted amount of the future cash flows required to settle the obligations are estimated to be \$6,156,727 (2008 - \$1,930,000). The obligations were calculated using a credit adjusted risk free discount rate of 9% and an inflation rate of 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 2014 and 2022.

**9. General and administrative expenditures**

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The following is a summary of costs included in general and administrative expenditures:

	<b>For the fiscal year ended Dec 31, 2009</b>	For the fiscal year ended Sep 30, 2008
Recurring expenditures	\$ 3,568,222	\$ 1,437,531
Bad debts	249,773	151,257
Reorganization costs	636,892	496,000
Merger and acquisition activity	175,872	-
Recoveries	(109,899)	(78,281)
	\$ 4,520,860	\$ 2,006,507

**10. Income taxes**

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Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

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	Dec 31, 2009	Sep 30, 2008
Property and equipment	\$ 8,643,064	\$ 6,222,870
Non-capital losses	5,776,968	7,301,201
Scientific research and development expenses	4,860,969	4,819,390
Share issue costs	1,050,963	517,690
Asset retirement obligations	613,397	-
	<b>20,945,361</b>	18,861,151
Valuation allowance	(16,722,554)	(18,861,151)
Net future tax asset	\$ 4,222,807	\$ -

The actual tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to the loss before income taxes. The major components of the differences are explained as follows:

	Fiscal year ended Dec 31, 2009	Fiscal year ended Sep 30, 2008
Loss before income taxes	\$ (15,939,750)	\$ (3,085,655)
Corporate income tax rate	29.17%	29.50%
Computed expected tax recovery	\$ (4,649,625)	\$ (910,268)
Change in enacted tax rates	532,126	99,052
Non-deductible stock-based compensation expense	135,760	176,070
Non-deductible expenses	15,971	3,688
Valuation allowance	3,965,768	631,458
Future income tax expense	-	-
Current income tax expense	16,703	-
Income tax expense	\$ 16,703	\$ -

The current income tax expense of \$16,703 (2008 - \$nil) relates to the Saskatchewan Resource Surcharge on the Company's Saskatchewan production revenue.

The following is a summary of the Company's estimated tax pools:

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

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

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

## 11. Supplemental cash flow information

	Fiscal year ended Dec 31, 2009	Fiscal year ended Sep 30, 2008
Changes in non-cash working capital related to:		
Accounts receivable	\$ (213,575)	\$ (1,812,287)
Deposits and prepaid expenses	42,340	(423,306)
Accounts payable and accrued liabilities	2,385,389	1,434,668
Business combinations (note 4)	(1,169,085)	(332,922)
	<b>\$ 1,045,069</b>	<b>\$ (1,133,847)</b>
Changes in non-cash working capital related to:		
Operating activities	\$ 282,712	\$ 762,460
Investing activities	560,393	(1,896,307)
Financing activities	201,964	-
	<b>\$ 1,045,069</b>	<b>\$ (1,133,847)</b>
Cash and cash equivalents consist of:		
Cash on deposit	\$ 22,142,578	\$ -
Interest paid	\$ 90,227	\$ 219,555
Income taxes paid	\$ 16,703	\$ -

## 12. Financial instruments and risk management

The Company's financial instruments as at December 31, 2009 consist of cash and cash equivalents, accounts receivable, deposits, investment, and accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying value due to their short-term nature, except for the investment. The investment consists of common shares in a non-publicly traded company, which was acquired as part of the business combination with Ammonite (note 4). The fair value of the investment is determined by a review of the company's assets, capital program, and recent fund raising efforts.

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

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

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

### Credit Risk

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

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Substantially all of the Company's accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal industry credit risks. During the fiscal year ended December 31, 2009, the Company marketed its petroleum and natural gas to primarily two oil and natural gas marketers. However, subsequent to December 31, 2009, the Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from oil and natural gas marketers are normally collected on the 25<sup>th</sup> day of the month following production. Subsequent to December 31, 2009, all of the Company's sales revenue receivable was collected. Receivables from joint venture partners are typically collected within one to three months of the joint venture billing being issued, however collection is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling, and disputes amongst partners. The Company attempts to mitigate credit risk from joint venture partners by obtaining partner approval of significant capital costs prior to expenditure. While the Company does not typically obtain collateral from joint venture partners, it may cash call a partner in advance of the work being done. In addition, the Company has the ability to withhold production from partners in the event of non-payment. Should any of the Company's customers or partners be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to losses arising from accounts receivable and cash and cash equivalents is equal to their total carrying amounts on the balance sheet. During the fiscal year ended December 31, 2009, the Company recorded an allowance for doubtful accounts in the amount of \$200,000 and recorded the corresponding amount as a bad debt expense. When determining whether past due accounts are collectible, the Company factors in the past credit history of the counter parties.

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

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

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

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

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

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

#### Liquidity risk

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

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

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

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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 note 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. The Company had no forward exchange rate contracts in place, nor any significant working capital items denominated in foreign currencies, as at or during the fiscal year ended December 31, 2009.

#### Commodity price risk

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

#### Interest rate risk

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

### **13. Related party transactions**

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On February 29, 2008, the Company entered into agreements with corporations controlled by, at that time, three directors of the Company to provide bridge financing to fund its short term working capital needs. Under the terms of the agreement, \$400,000 was advanced. A commitment fee of 3% was paid at the time of the advance and amounts outstanding bore interest at bank prime rate plus 3%. The bridge facility had a maturity date of 90 days subsequent to the advance of funds under the facility and could be renewed for a further 90 days upon mutual consent of the parties. On May 29, 2008, the bridge financing was renewed with the new term being until the completion of the business combination with G2, or August 29, 2008 which ever was earlier. In connection with the renewal, a fee of 3% was paid to the lenders. Effective at the renewal date, the interest was increased to bank prime rate plus 6%. The bridge facility was secured by a general security agreement over the assets of the Company (subordinated to the bank) and the lenders were issued promissory notes for the amount of the bridge facility. Concurrent with the completion of the business combination with G2, the bridge financing was re-paid on July 10, 2008. Total interest and renewal fees paid for the bridge financing during the year ended September 30, 2008 was \$36,914.

Pursuant to the March 31, 2009 private placement financing (note 7(a)), the Company paid a fee of 1% of the gross proceeds of the financing, or \$138,750, to Nova Bancorp Securities Ltd., a corporation related at that time to two directors of Novus, for the provision of certain advisory services in connection with the private placement. The Company also paid a finders fee of \$214,419 to a corporation related to an Insider

of the Company, such Insider status due to their control of more than 10% of the Company's issued and outstanding shares at the time of the financing.

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

#### 14. Capital disclosures

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

The Company monitors its capital structure to ensure that it maintains a positive working capital position free of bank debt. As at December 31, 2009, the Company had positive working capital of \$19,422,676 with no bank debt outstanding.

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

#### 15. Commitments and contingencies

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

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

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

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

The CRA has conducted an audit of transfer pricing on international transactions between SiberCore Technologies Incorporated and its United States subsidiary, SiberCore America Inc. for the years 2000, 2001 and 2002. SiberCore Technologies Incorporated was the predecessor company of Azeri Capital Inc. and ultimately Novus Energy Inc. The Company has received a proposed settlement letter from CRA that would result in a reduction of tax pools of approximately \$1,500,000. CRA has also proposed to charge a cash penalty of approximately \$150,000. The Company has responded to the proposed settlement letter and provided further information supporting management's view that CRA's position has no merit and

intends to object to any notice of assessment that may be received. The outcome of this audit is uncertain at this time and as such, no provisions have been made in these financial statements.

#### **16. Subsequent events**

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

On February 9, 2010, the Company granted a total of 4,000,000 options to certain directors, officers and employees of the Company. The options are exercisable at a price of \$0.88 for a period of five years and shall vest  $\frac{1}{4}$  every six months, beginning six months from the date of grant.

On March 1, 2010, the Company, through a newly formed wholly-owned subsidiary, acquired all of the issued and outstanding common shares of a private company in exchange for 18,666,211 common shares of the Company at a deemed price of \$0.91 per share. The private company had approximately 214 barrels of oil equivalent per day of production, 25.5 net sections of undeveloped lands and estimated working capital of approximately \$8,000,000.

On March 4, 2010 the Company, through its newly formed wholly-owned subsidiary, acquired all of the issued and outstanding common shares of a private company at a cost of \$925,000, comprised of a cash payment of \$800,000 and the assumption of approximately \$125,000 of debt. The acquisition provides the Company with two sections of prospective land in the Dodsland area of Saskatchewan.

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

On April 7, 2010, the Company, through its newly formed wholly-owned subsidiary, acquired all of the issued and outstanding common shares of a private company at a cost of \$1,250,000, which was paid in cash. The acquisition provides the Company with 2.3 sections of prospective land in the Dodsland area of Saskatchewan.

On April 7, 2010, the Company entered into a farm-in agreement whereby the Company paid \$300,000 for the right to farm-in on 0.5 sections of land in the Dodsland area of Saskatchewan. In order to earn a 100% interest in the lands, subject to a royalty reserved to the farmor, the Company must drill a test well on the lands on or before July 30, 2010.

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

#### **17. Comparative financial statements**

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Certain figures in the comparative financial statements have been reclassified to be consistent with the presentation in the current period.