



Novus Energy Inc  
Consolidated Financial Statements  
March 31, 2010  
(unaudited)

| <u>Contents</u>  | <u>Page</u> |
|--|-------------|
| Interim Consolidated Financial Statements                                |             |
| Consolidated Balance Sheets  | 2           |
| Consolidated Statements of Operations, Comprehensive Loss<br>and Deficit | 3           |
| Consolidated Statements of Cash Flows                                    | 4           |
| Notes to the Consolidated Financial Statements                           | 5 – 16      |

Novus Energy Inc.  
Consolidated Balance Sheets  
(*unaudited*)

|  | March 31, 2010 | December 31, 2009 |
|--|----------------|-------------------|
| <b>ASSETS</b>                                |                |                   |
| <b>Current Assets</b>                        |                |                   |
| Cash and cash equivalents                    | \$ 23,408,158  | \$ 22,142,578     |
| Accounts receivable                          | 2,794,670      | 2,512,175         |
| Deposits and prepaid expenses                | 699,022        | 442,120           |
|  | 26,901,850     | 25,096,873        |
| <b>Investment</b>                            | 15,000         | 15,000            |
| <b>Future income taxes (note 9)</b>          | 4,922,827      | 4,222,807         |
| <b>Property and equipment (note 5)</b>       | 60,480,204     | 45,387,237        |
| <b>Goodwill</b>                              | 5,914,576      | 5,914,576         |
|  | \$ 98,234,457  | \$ 80,636,493     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                |                   |
| <b>Current</b>                               |                |                   |
| Accounts payable and accrued liabilities     | \$ 6,418,993   | \$ 5,674,197      |
| <b>Asset retirement obligations (note 7)</b> | 4,119,002      | 2,384,903         |
|  | 10,537,995     | 8,059,100         |
| Commitments and contingencies (note 13)      |                |                   |
| Subsequent events (notes 8(b) and 14)        |                |                   |
| <b>SHAREHOLDERS' EQUITY</b>                  |                |                   |
| Equity instruments (note 8)                  | 173,822,514    | 156,531,431       |
| Contributed surplus (note 8(f))              | 4,251,729      | 3,599,900         |
| <b>Deficit</b>                               | (90,377,781)   | (87,553,938)      |
|  | 87,696,462     | 72,577,393        |
|  | \$ 98,234,457  | \$ 80,636,493     |

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.  
Consolidated Statements of Operations, Comprehensive Loss and Deficit  
*(unaudited)*

|   | For the 3 months ended<br>March 31, 2010 | For the 3 months ended<br>March 31, 2009 |
|---|--|--|
| <b>REVENUE</b>  |  |  |
| Production revenue                                    | \$ 2,986,670                             | \$ 911,220                               |
| Royalties   | (668,955)                                | (225,200)                                |
|   | <b>2,317,715</b>                         | <b>686,020</b>                           |
| <b>EXPENSES</b>                                       |  |  |
| Operating   | 907,455                                  | 585,949                                  |
| Transportation  | 103,504                                  | 38,429                                   |
| General and administrative                            | 1,184,341                                | 1,382,091                                |
| Transaction costs (note 4)                            | 172,217                                  | -  |
| Interest  | -  | 44,427                                   |
| Stock-based compensation (recovery) (note 8(e))       | 649,303                                  | (56,640)                                 |
| Depletion and depreciation (note 5)                   | 2,340,188                                | 7,812,166                                |
| Accretion   | 67,710                                   | 12,386                                   |
|   | <b>5,424,718</b>                         | <b>9,818,808</b>                         |
| <b>Loss before income taxes</b>                       | <b>(3,107,003)</b>                       | <b>(9,132,788)</b>                       |
| Current income taxes (note 9)                         | 28,929                                   | 14,155                                   |
| Future income taxes recovery (note 4)                 | (312,089)                                | -  |
|   | <b>(283,160)</b>                         | <b>14,155</b>                            |
| <b>Net loss and comprehensive loss for the period</b> | <b>(2,823,843)</b>                       | <b>(9,146,943)</b>                       |
| <b>Deficit, beginning of period</b>                   | <b>(87,553,938)</b>                      | <b>(72,958,839)</b>                      |
| <b>Deficit, end of period</b>                         | <b>\$ (90,377,781)</b>                   | <b>\$ (82,105,782)</b>                   |
| <b>Net loss per share</b>                             |  |  |
| <b>Basic and diluted (note 8(g))</b>                  | <b>\$ (0.02)</b>                         | <b>\$ (0.60)</b>                         |

*See accompanying notes.*

Novus Energy Inc  
Consolidated Statements of Cash Flows  
(Unaudited)

| <b>CASH PROVIDED BY (USED IN)</b>                                   | <b>For the 3 months ended<br/>March 31, 2010</b> | <b>For the 3 months ended<br/>March 31, 2009</b> |
|---|--|--|
| <b>OPERATING ACTIVITIES</b>   |  |  |
| Net loss for the period   | \$ (2,823,843)                                   | \$ (9,146,943)                                   |
| Non-cash and other items:   |  |  |
| Stock-based compensation (recovery)                                 | 649,303  | (56,640)   |
| Depletion and depreciation  | 2,340,188  | 7,812,166  |
| Accretion   | 67,710   | 12,386   |
| Future income taxes recovery  | (312,089)  | -  |
| Asset retirement expenditures                                       | (2,572)  | -  |
| Change in non-cash working capital (note 10)                        | (432,238)  | (974,760)  |
|   | <b>(513,541)</b>                                 | <b>(2,353,791)</b>                               |
| <b>FINANCING ACTIVITIES</b>   |  |  |
| Repayment of bank debt, net   | -  | (3,350,000)                                      |
| Proceeds from issuance of equity instruments, net of issuance costs | 21,357   | 12,658,483                                       |
| Change in non-cash working capital (note 10)                        | (175,748)  | 463,185  |
|   | <b>(154,391)</b>                                 | <b>9,771,668</b>                                 |
| <b>INVESTING ACTIVITIES</b>   |  |  |
| Capital expenditures, net   | (5,937,958)                                      | (220,158)  |
| Cash paid on business combinations (note 4)                         | (812,274)  | -  |
| Cash acquired on business combinations (note 4)                     | 8,276,474  | -  |
| Change in non-cash working capital (note 10)                        | 407,270  | (1,200,847)                                      |
|   | <b>1,933,512</b>                                 | <b>(1,421,005)</b>                               |
| <b>Increase in cash and cash equivalents</b>                        | <b>1,265,580</b>                                 | <b>5,996,872</b>                                 |
| <b>Cash and cash equivalents, beginning of period</b>               | <b>22,142,578</b>                                | <b>487,343</b>                                   |
| <b>Cash and cash equivalents, end of period</b>                     | <b>\$ 23,408,158</b>                             | <b>\$ 6,484,215</b>                              |

See accompanying notes.

Supplemental cash flows disclosure – note 10

## **1. Description of business**

---

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

## **2. Accounting policies**

---

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal period ended December 31, 2009, except as disclosed in note 3. These interim consolidated financial statements do not include all note disclosures required for annual financial statements and the disclosure provided herein is incremental to the disclosure included in the annual financial statements. The interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the fiscal period ending December 31, 2009.

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

---

Adoption of new accounting policies

### a) 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, not capitalized, as part of the purchase price. As well, under the new standard, the acquirer’s unrecognized tax benefits that are recognizable as a result of an acquisition are recognized as a reduction of income tax expense. The new standard also modifies the accounting for contingent consideration and negative goodwill. The Company has elected to prospectively adopt the standards effective January 1, 2010, in advance of the transition to International Financial Reporting Standards (“IFRS”) as it substantially aligns with IFRS.

### b) 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 they do not have a material impact on the Company’s consolidated financial statements.

### c) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Novus Energy (Acquisition) Inc., from January 29, 2010, when it was incorporated, and Coyote Resources Ltd., a wholly-owned subsidiary of Novus Energy (Acquisition) Inc., from March 4,

2010, when it was acquired.

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 third quarter of 2010 as the Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS. The impact on the Company’s consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed in the Company’s Management’s Discussion and Analysis as it becomes available during the transition period.

**4. Business combinations**

---

*PrivateCo.*

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

|  |               |
|--|---------------|
| Consideration:                                 |               |
| Common shares issued                           | \$ 16,986,252 |
| Fair value of assets and liabilities acquired: |               |
| Property and equipment                         | \$ 9,351,974  |
| Cash   | 8,276,474     |
| Working capital deficiency                     | (293,839)     |
| Future tax asset                               | 700,020       |
| Asset retirement obligations                   | (1,048,377)   |
|  | \$ 16,986,252 |

The attributed value of the common shares has been excluded from the statement of cash flows as a non-cash transaction. The accounts of the Company include the results of PrivateCo from March 1, 2010. PrivateCo amalgamated with Novus Energy (Acquisition) Inc., on March 1, 2010 and continues to operate as Novus Energy (Acquisition) Inc.

Novus Energy Inc  
Notes to the Interim Consolidated Financial Statements  
As at and for the three months ended March 31, 2010  
(unaudited)

---

As a result of the acquisition, the Company evaluated PrivateCo's estimated future cash flows based on proved producing reserves and determined that the Company is more likely than not to recognize future tax assets on certain tax pools of PrivateCo.

Transaction costs of \$70,210 were primarily comprised of legal fees and are recorded on the consolidated statement of operations, comprehensive loss and deficit as Transaction costs.

PrivateCo incurred \$1,025,734 in legal, advisory and severance costs with respect to the sale of the company, all of which were paid by PrivateCo at closing, except for \$227,628 which is included in the working capital deficiency acquired.

The fair value of accounts receivable acquired are \$159,351 which represents the contractual amounts receivable and are considered to be collectible. Accounts receivable were comprised of the following:

|                               |           |                |
|-------------------------------|-----------|----------------|
| Sales revenue receivable      | \$        | 36,450         |
| Joint interest receivables    |           | 27,998         |
| Accrued and other receivables |           | 94,903         |
|                               | <u>\$</u> | <u>159,351</u> |

All of the above amounts are estimates, which were made by management based on information at the time these interim consolidated financial statements were prepared. Amendments may be made to these amounts as values subject to estimate are finalized.

*Coyote Resources Ltd.*

On March 4, 2010, the Company, through its wholly-owned subsidiary Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of Coyote Resources Ltd. ("Coyote"), which owned two sections of prospective land in the Dodsland area of Saskatchewan. As consideration, the Company paid \$812,274 and assumed \$112,276 of debt, subject to further adjustments. The acquisition was accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed are recorded at fair values. The purchase price allocation is as follows:

|  |           |                |
|--|-----------|----------------|
| Consideration:                                 |           |                |
| Cash   | \$        | 812,274        |
| Fair value of assets and liabilities acquired: |           |                |
| Property and equipment                         | \$        | 1,374,414      |
| Working capital deficiency                     |           | (112,276)      |
| Future income tax liability                    |           | (312,089)      |
| Asset retirement obligations                   |           | (137,775)      |
|  | <u>\$</u> | <u>812,274</u> |

The accounts of the Company include the results of Coyote from March 4, 2010.

As a result of the acquisition, the Company determined that it is more likely than not to recognize future tax assets on certain tax pools of the Company to offset the future income tax liability associated with the acquisition. As a result, \$312,089 has been recorded as a future income tax recovery during the period ended March 31, 2010.

Transaction costs of \$63,953 were primarily comprised of legal fees and are recorded on the consolidated statement of operations, comprehensive loss and deficit as Transaction costs.

Novus Energy Inc  
Notes to the Interim Consolidated Financial Statements  
As at and for the three months ended March 31, 2010  
(unaudited)

The fair value of accounts receivable acquired are \$33,716 which represents the contractual amounts receivable and are considered to be collectible. Accounts receivable were comprised of the following:

|                               |           |               |
|-------------------------------|-----------|---------------|
| Sales revenue receivable      | \$        | 32,543        |
| Accrued and other receivables |           | 1,173         |
|                               | <b>\$</b> | <b>33,716</b> |

All of the above amounts are estimates, which were made by management based on information at the time these interim consolidated financial statements were prepared. Amendments may be made to these amounts as values subject to estimate are finalized.

### 5. Property and equipment

|  | Mar 31, 2010         | Dec 31, 2009         |
|--|----------------------|----------------------|
| Petroleum and natural gas properties including exploration and development thereon | \$ 86,080,311        | \$ 68,728,194        |
| Other assets   | 452,161              | 371,123              |
|  | <b>\$ 86,532,472</b> | <b>\$ 69,099,317</b> |
| Accumulated depletion and depreciation   | (26,052,268)         | (23,712,080)         |
|  | <b>\$ 60,480,204</b> | <b>\$ 45,387,237</b> |

Costs of unproved properties in the amount of \$6,539,102 (December 31, 2009 – \$4,899,955) were excluded from depletable costs. Future development costs of \$11,904,436 (December 31, 2009 – \$12,692,000) were included in depletable costs. The Company capitalized \$90,488 of general and administrative expenditures which were directly attributable to exploration and evaluation activities during the three months ended March 31, 2010 (2009 – \$nil).

As at March 31, 2010, 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 calculation:

|                  | Mar 31, 2010                      |                                       |                                 |
|------------------|-----------------------------------|---------------------------------------|---------------------------------|
|                  | Edmonton Light<br>Crude \$Cdn/BBL | Hardisty Bow River<br>Crude \$Cdn/BBL | AECO Natural Gas<br>\$Cdn/MMBTU |
| 2010 (Apr – Dec) | 86.64                             | 78.84                                 | 4.30                            |
| 2011             | 88.91                             | 80.02                                 | 5.19                            |
| 2012             | 90.24                             | 79.41                                 | 5.59                            |
| 2013             | 93.12                             | 81.02                                 | 7.28                            |
| 2014             | 95.29                             | 81.95                                 | 7.77                            |
| 2015             | 96.73                             | 83.18                                 | 7.90                            |
| 2016             | 98.19                             | 84.44                                 | 8.03                            |
| 2017             | 99.67                             | 85.72                                 | 8.16                            |
| 2018             | 101.17                            | 87.01                                 | 8.29                            |
| 2019             | 102.70                            | 88.32                                 | 8.43                            |
| 2020             | 104.25                            | 89.66                                 | 8.57                            |
| 2021+            | 1.5% per year<br>thereafter       | 1.5% per year<br>thereafter           | 1.5% per year<br>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.

Novus Energy Inc  
Notes to the Interim Consolidated Financial Statements  
As at and for the three months ended March 31, 2010  
(unaudited)

---

A ceiling test calculation performed as at March 31, 2009 resulted in an impairment provision of \$7,000,000, with such amount included in the depletion and depreciation expense for the three months ended March 31, 2009.

**6. Bank debt**

---

As at March 31, 2010, the Company had no bank debt outstanding. The Company has available a \$3,500,000 revolving operating demand facility. 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 March 31, 2010, this ratio was 4.7:1.

The effective interest rate for the bank debt for the three months ended March 31, 2010 was 3.75% (2009 – 4.21%). 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 to be completed on or before May 31, 2010.

**7. Asset retirement obligations**

---

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 obligations:

|  | <b>Mar 31, 2010</b> | Dec 31, 2009        |
|--|---------------------|---------------------|
| Asset retirement obligations, beginning of period      | \$ 2,384,903        | \$ 950,799          |
| Revisions in estimated cash flows                      | 42,687              | 115,338             |
| Liabilities incurred                                   | 440,122             | 146,078             |
| Liabilities acquired on property acquisitions          | -                   | 673,785             |
| Liabilities acquired on business combinations (note 4) | 1,186,152           | 697,829             |
| Liabilities settled                                    | (2,572)             | (308,099)           |
| Accretion expense                                      | 67,710              | 109,173             |
| Asset retirement obligations, end of period            | <b>\$ 4,119,002</b> | <b>\$ 2,384,903</b> |

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be \$9,035,717 (December 31, 2009 - \$6,156,727). The obligations were calculated using a credit-adjusted risk-free interest 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 2015 and 2023.

## 8. Equity instruments

### Authorized

Unlimited number of common shares.

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

### Issued

| <b>Common Shares</b>                     | <b>Shares</b>      | <b>Stated Value</b>   |
|--|--------------------|-----------------------|
| Balance – December 31, 2009              | 122,103,852        | \$ 149,630,325        |
| Issued on business combination (note 4)  | 18,666,211         | 16,986,252            |
| Issued for farm-in agreement (note 8(a)) | 325,000            | 286,000               |
| Issued on exercise of warrants           | 80,000             | 73,760                |
| Issue costs                              | -                  | (38,643)              |
| <b>Balance – March 31, 2010</b>          | <b>141,175,063</b> | <b>\$ 166,937,694</b> |

| <b>Warrants</b>                 | <b>Number of Warrants<br/>and Underlying Shares</b> | <b>Stated Value</b> |
|---------------------------------|---|---------------------|
| Balance – December 31, 2009     | 30,070,815  | \$ 6,901,106        |
| Exercised                       | (80,000)  | (13,760)            |
| Expired                         | (110,715)   | (2,526)             |
| <b>Balance – March 31, 2010</b> | <b>29,880,100</b>                                   | <b>\$ 6,884,820</b> |

|                                 |                       |
|---------------------------------|-----------------------|
| <b>Total Equity Instruments</b> | <b>\$ 173,822,514</b> |
|---------------------------------|-----------------------|

#### a) Farm-in agreement

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

#### b) Warrants

The following table summarizes the warrants outstanding on March 31, 2010:

| <b>Date of Expiry</b>       | <b>Exercise Price</b> | <b>Number of warrants</b> |
|-----------------------------|-----------------------|---------------------------|
| Jul 10, 2010                | \$ 2.60               | 2,230,100                 |
| Mar 31, 2012 <sup>(1)</sup> | \$ 0.75               | 27,650,000                |
|                             |                       | <b>29,880,100</b>         |

(1) 1,344,000 warrants have been exercised subsequent to March 31, 2010.

#### c) 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.

Novus Energy Inc  
Notes to the Interim Consolidated Financial Statements  
As at and for the three months ended March 31, 2010  
(unaudited)

The following tables summarize the status of the Company's stock option plan and the activity during the three month period ended March 31, 2010:

|                              | Number of<br>Options | Weighted<br>Average<br>Exercise Price |
|------------------------------|----------------------|---------------------------------------|
| Balance, beginning of period | 3,415,000            | \$ 0.78                               |
| Granted                      | 4,000,000            | 0.88                                  |
| Balance, end of period       | 7,415,000            | 0.83                                  |
| Exercisable, end of period   | 1,036,668            | \$ 1.02                               |

| Date of Grant | Number<br>Outstanding at<br>Mar 31, 2010 | Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Date of<br>Expiry | Number<br>Exercisable at<br>Mar 31, 2010 |
|---------------|--|-------------------|---|-------------------|--|
| Feb 12, 2007  | 30,000                                   | \$ 3.00           | 1.87  | Feb 12, 2012      | 30,000                                   |
| Jul 16, 2008  | 385,000                                  | 2.00              | 3.30  | Jul 16, 2013      | 256,668                                  |
| Sep 4, 2009   | 3,000,000                                | 0.60              | 4.43  | Sep 4, 2014       | 750,000                                  |
| Feb 9, 2010   | 4,000,000                                | 0.88              | 4.87  | Feb 9, 2015       | -  |
|               | <b>7,415,000</b>                         | <b>\$ 0.83</b>    | <b>4.60</b>   |                   | <b>1,036,668</b>                         |

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

d) Performance warrants

The following tables summarize the status of the Company's performance warrants and the activity during the three month period ended March 31, 2010:

|                              | Number of Warrants | Exercise Price |
|------------------------------|--------------------|----------------|
| Balance – December 31, 2009  | 4,200,000          | \$ 0.56        |
| Granted                      | -                  | -              |
| Forfeited                    | -                  | -              |
| Balance – March 31, 2010     | 4,200,000          | 0.56           |
| Exercisable – March 31, 2010 | -                  | \$ -           |

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,  $\frac{1}{3}$  of the performance warrants shall vest upon an increase in NAV per share of 25%,  $\frac{2}{3}$  of the performance warrants shall vest upon an increase of NAV per share of 33  $\frac{1}{3}$ %, and all of the performance warrants shall vest upon an increase in NAV per share of 50%. No further performance warrants will be issued.

e) Stock-based compensation expense

The fair value of stock options granted during the three months ended March 31, 2010 were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

|                         |           |
|-------------------------|-----------|
| Risk-free interest rate | 2.2%      |
| Expected volatility     | 86%       |
| Expected life           | 4.4 years |

Novus Energy Inc  
Notes to the Interim Consolidated Financial Statements  
As at and for the three months ended March 31, 2010  
(unaudited)

|                               |        |
|-------------------------------|--------|
| Expected dividend yield       | 0%     |
| Estimated forfeiture rate     | 2.4%   |
| Fair value per option/warrant | \$0.57 |

Compensation costs (recoveries) of \$649,303 for the three months ended March 31, 2010 (2009 - \$(56,640)) have been expensed and have resulted in a corresponding increase (decrease) in contributed surplus in the respective periods. No compensation expense has been recorded for the performance warrants as management does not expect the performance warrants to vest based on current NAV per share projections at this time.

f) Contributed surplus

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

|                                  | Amount       |
|----------------------------------|--------------|
| Balance, beginning of period     | \$ 3,599,900 |
| Stock-based compensation expense | 649,303      |
| Expiry of warrants               | 2,526        |
| Balance, end of period           | \$ 4,251,729 |

g) Per share amounts

Basic loss per share is calculated using the weighted average number of common shares of 128,781,048 for the three months ended March 31, 2010 (2009 – 15,313,354). All outstanding options, performance warrants and warrants were excluded from the dilution calculation as they were anti-dilutive for all periods.

**9. Income taxes**

The current income tax expense of \$28,929 (2009 – \$14,155) relates to the Saskatchewan Resource Surcharge on the Company's Saskatchewan production revenue.

The following is a summary of the Company's estimated tax pools as at March 31, 2010:

| Classification                             | Amount                |
|--|-----------------------|
| Non-capital loss carry-forwards            | \$ 33,488,000         |
| Canadian oil and gas property expenditures | 33,218,000            |
| Canadian development expenditures          | 22,470,000            |
| Scientific research and development        | 18,899,000            |
| Capital cost allowance                     | 18,260,000            |
| Canadian exploration expenditures          | 17,164,000            |
| Share issue costs                          | 3,745,000             |
| Other                                      | 260,000               |
|  | <b>\$ 147,504,000</b> |

The estimated 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 - 2030                           | 26,209,000           |
| Total non-capital loss carry-forwards | <b>\$ 33,488,000</b> |

Novus Energy Inc  
Notes to the Interim Consolidated Financial Statements  
As at and for the three months ended March 31, 2010  
(unaudited)

**10. Supplemental cash flow information**

|   | Three months ended<br>Mar 31, 2010 | Three months ended<br>Mar 31, 2009 |
|---|------------------------------------|------------------------------------|
| Changes in non-cash working capital related to: |                                    |                                    |
| Accounts receivable                             | \$ (282,495)                       | \$ (130,039)                       |
| Deposits and prepaid expenses                   | (256,902)                          | 63,749                             |
| Accounts payable and accrued liabilities        | 744,796                            | (1,646,132)                        |
| Business combinations (note 4)                  | (406,115)                          | -                                  |
|   | \$ (200,716)                       | \$ (1,712,422)                     |
| Changes in non-cash working capital related to: |                                    |                                    |
| Operating activities                            | \$ (432,238)                       | \$ (974,760)                       |
| Financing activities                            | (175,748)                          | 463,185                            |
| Investing activities                            | 407,270                            | (1,200,847)                        |
|   | \$ (200,716)                       | \$ (1,712,422)                     |
| Cash and cash equivalents consist of:           |                                    |                                    |
| Cash on deposit                                 | \$ 23,408,158                      | \$ 6,484,215                       |
| Interest paid                                   | \$ -                               | \$ 44,427                          |
| Income taxes paid                               | \$ -                               | \$ 14,155                          |

**11. Financial instruments and risk management**

The Company's financial instruments as at March 31, 2010 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 a business combination in 2009. 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 March 31, 2010.

|                           | Level 1       | Level 2 | Level 3   | Total         |
|---------------------------|---------------|---------|-----------|---------------|
| Cash and cash equivalents | \$ 23,408,158 | \$ -    | \$ -      | \$ 23,408,158 |
| Investment                | -             | -       | 15,000    | 15,000        |
| Total                     | \$ 23,408,158 | \$ -    | \$ 15,000 | \$ 23,423,158 |

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

**Credit Risk**

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

Novus Energy Inc  
Notes to the Interim Consolidated Financial Statements  
As at and for the three months ended March 31, 2010  
(unaudited)

Substantially all of the Company's accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal industry credit risks. The Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from oil and natural gas marketers are normally collected on the 25<sup>th</sup> day of the month following production. Receivables from joint venture partners are typically collected within one to three months of the joint venture billing being issued, however collection is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling, and disputes amongst partners. The Company attempts to mitigate credit risk from joint venture partners by obtaining partner approval of significant capital costs prior to expenditure. While the Company does not typically obtain collateral from joint venture partners, it may cash call a partner in advance of the work being done. In addition, the Company has the ability to withhold production from partners in the event of non-payment. Should any of the Company's customers or partners be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to losses arising from accounts receivable and cash and cash equivalents is equal to their total carrying amounts on the balance sheet. During the three months ended March 31, 2010, the Company recorded an allowance for doubtful accounts in the amount of \$nil (2009 – \$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 March 31, 2010, the Company's accounts receivable were comprised of the following:

|                                  |           |                  |
|----------------------------------|-----------|------------------|
| Sales revenue receivable         | \$        | 729,433          |
| Joint interest receivable        |           | 1,083,551        |
| Cash call receivable             |           | 295,800          |
| Accrued and other receivable     |           | 685,886          |
| <b>Total accounts receivable</b> | <b>\$</b> | <b>2,794,670</b> |

As at March 31, 2010, 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 |
|---------------------------|--------------|---------------|---------------|----------------------|
| \$ 2,794,670              | \$ 1,877,341 | \$ 169,787    | \$ 106,758    | \$ 640,784           |

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 March 31, 2010, the Company's accounts payable and accrued liabilities were \$6,418,993 all of which are due for payment within normal terms of trade, which are generally between 30 and 60 days. As at March 31, 2010, the Company has cash on hand of \$23,408,158 to manage its liquidity and settlement of liabilities.

The Company's financial liabilities at March 31, 2010 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 |
|--|--------------|---------------|---------------|----------------------|
| \$ 6,418,993                                   | \$ 5,331,672 | \$ 570,122    | \$ 331,384    | \$ 185,815           |

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 13.

#### Foreign currency exchange risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada are impacted by changes in the exchange rate between the Canadian and United States dollar and the impact of such exchange rate fluctuations cannot be accurately quantified. The Company had no forward exchange rate contracts in place, nor any working capital items denominated in foreign currencies, as at or during the three months ended March 31, 2010.

#### Commodity price risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are not only impacted by the relationship between the Canadian and United States dollar as outlined above, but also by world economic events that dictate the levels of supply and demand. The Company had no commodity contracts locking in petroleum or natural gas prices as at or during the three months ended March 31, 2010.

#### Interest rate risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. From time to time, the Company may attempt to mitigate this risk by utilizing short-term bankers' acceptances to lock in a portion of its bank debt at fixed rates. No interest rate swaps or financial contracts were in place as at or during the three months ended March 31, 2010.

## **12. Capital disclosures**

---

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 three months ended March 31, 2010.

The Company monitors its capital structure to ensure that it maintains a positive working capital position free of bank debt. As at March 31, 2010, the Company had positive working capital of \$20,482,857 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 March 31, 2010, this ratio was 4.7:1.

### 13. Commitments and contingencies

---

As at March 31, 2010, the Company had commitments as follows:

|              | 2010       | 2011       | Thereafter |
|--------------|------------|------------|------------|
| Office Lease | \$ 461,295 | \$ 421,272 | \$ -       |

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.

### 14. Subsequent events

---

On April 7, 2010, the Company, through its wholly-owned subsidiary Novus Energy (Acquisition) Inc., acquired all of the issued and outstanding common shares of 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. As of the date of preparation of these consolidated interim financial statements, the closing financial statements of the private company have not been prepared. The purchase price shall be reduced by the amount by which the current and long-term liabilities of the private company exceed the current assets of the private company.

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.

On May 3, 2010, the Company entered into a farm-in agreement which provides the Company with the rights to farm-in on an estimated 16.3 sections of land with petroleum and natural gas rights in the Viking formation. Under the terms of the farm-in agreement, the Company is required to drill a minimum of 13 wells prior to April 30, 2011. Following completion, Novus will have earned a 100% working interest in each quarter section upon which a well was drilled. The Company then has a rolling option to earn the remaining lands on the same earning terms.

On May 18, 2010, the Company completed an equity offering ("Offering") whereby the Company issued 22,730,000 common shares at a price of \$1.10 per common share for aggregate gross proceeds of \$25,003,000. After deducting the estimated costs of the Offering of \$1,550,150, the estimated net proceeds received by Novus are \$23,452,850. The Company intends to use the net proceeds of the Offering for the development and expansion of core area and general corporate purposes.

### 15. Comparative financial statements

---

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