

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") should be read in conjunction with Novus Energy Inc.'s ("Novus" or the "Company") unaudited condensed interim financial statements as at and for the three months ended March 31, 2011, and Novus' audited financial statements as at and for the year ended December 31, 2010. The accompanying financial statements of Novus have been prepared by management and approved by the Company's Audit Committee. The financial data presented herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically IFRS 1, "First-time Adoption of International Financial Reporting Standards", and International Accounting Standard 34, "Interim Financial Reporting". Previously, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). In accordance with IFRS 1, the Company's transition date to IFRS was January 1, 2010, and therefore the comparative information for 2010 has been prepared in accordance with Novus' IFRS policies. Certain amounts in prior periods have been reclassified to conform to the current period's IFRS presentation format.

Additional information relating to Novus, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com and Novus's website (www.novusenergy.ca).

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

This MD&A is current as at June 14, 2011.

NON-GAAP FINANCIAL MEASUREMENTS

Included in the MD&A are references to certain financial measures commonly used in the oil and gas industry, such as funds flow from (used in) operations and operating netbacks. These measures have no standardized meanings, are not defined by IFRS or Canadian GAAP, and accordingly are referred to as non-GAAP measures. These supplemental measures are used by management to assess operating results between periods and between peer companies as they provide an indication of the results generated by the Company's principal business activities before the consideration of how these activities are financed or how the results are taxed.

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

	For the three months ended Mar 31, 2011	For the three months ended Mar 31, 2010
Cash provided by (used in) operating activities	\$ 2,791	\$ (520)
Changes in non-cash working capital	383	432
Decommissioning expenditures	34	3
Funds flow from (used in) operations	\$ 3,208	\$ (85)

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

OTHER MEASUREMENTS

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

Reported production represents Novus' ownership share of sales before the deduction of royalties. Where amounts are expressed on a barrel of oil equivalent ("boe") basis, natural gas has been converted at a ratio of six thousand cubic feet to one boe. This ratio is based on an energy equivalency conversion method

primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation. References to natural gas liquids ("liquids") include condensate, propane, butane and ethane, and one barrel of liquids is considered to be equivalent to one boe.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain disclosures set forth in this MD&A constitute forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believes", "budget", "continue", "could", "estimate", "forecast", "intends", "may", "plan", "predicts", "projects", "should", "will" and other similar expressions. All estimates and statements that describe the Company's future, goals, or objectives, including management's assessment of future plans and operations, may constitute forward-looking information under securities laws. Forward-looking statements involve known and unknown risks and uncertainties which include, but are not limited to: exploration, development and production risks; assessments of acquisitions; reserve measurements; availability of drilling equipment; access restrictions; permits and licenses; aboriginal claims; title defects; commodity prices; commodity markets, transportation and marketing of crude oil, liquids and natural gas; reliance on operators and key personnel; competition; corporate matters; funding requirements; access to credit and capital markets; market volatility; cost inflation; foreign exchanges rates; general economic and industry conditions; environmental risks; Kyoto protocol; and government regulation and taxation.

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

THE COMPANY

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

The principal and head office of the Company is located at Suite 1200, 520 - 5th Avenue S.W., Calgary, Alberta T2P 3R7. The registered office of the Company is located at 3500, 855 - 2nd Street S.W., Calgary, Alberta T2P 4J8.

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

RESULTS OF OPERATIONS

Production

Novus' average daily production for the quarter ended March 31, 2011 was 1,544 boe/d, which was 117% greater than the 710 boe/d recorded in the quarter ended March 31, 2010. The higher production in 2011 is largely a reflection of the drilling program completed in latter half of 2010.

	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Average production		
Oil & liquids (bbls/d)	1,037	273
Natural gas (mcf/d)	3,040	2,620
Oil equivalent (boe/d)	1,544	710

Revenue and pricing

Gross production revenue for the three months ended March 31, 2011 was \$8.87 million versus \$2.99 million in the three months ended March 31, 2010. The increase in revenue is due to increased production

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

Sales revenue	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Oil & liquids	\$ 7,792	\$ 1,761
Natural gas	1,079	1,226
Total	\$ 8,871	\$ 2,987

Sales price per unit	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Oil & liquids (\$/bbl)	\$ 83.44	\$ 71.65
Natural gas (\$/mcf)	3.94	5.20
Blended (\$/boe)	\$ 63.83	\$ 46.76

Royalties

Royalties, which include crown, freehold and overriding royalties paid on oil, liquids and natural gas production, amounted to \$1.23 million during the first quarter of 2011 compared to \$669 thousand during the same quarter in 2010.

As a percentage of production, royalties decreased to 13.9% in the most recent quarter from 22.4% a year ago. The decrease is primarily the result of increased production from the Company's Saskatchewan crown properties, which generally carry a lower average royalty rate due to the Saskatchewan royalty incentive program on new wells.

Royalties	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Total	\$ 1,231	\$ 669
Per boe	\$ 8.85	\$ 10.47
% of revenue	13.9%	22.4%

The majority of the Company's growth is expected to come from its Saskatchewan assets, particularly the greater Dodsland area. Based on the anticipated production split from crown and freehold lands, the Company is forecasting an average royalty rate of 15% in 2011.

Field Operations

Field operations for the quarter ended March 31, 2011 amounted to \$2.53 million, or \$18.20/boe, compared to \$908 thousand, or \$14.21/boe, during the quarter ended March 31, 2010. Field operations per boe increased due to the expense of four workovers, start up costs associated with wells brought on production in early January 2011, and the impact of cold weather on field operations.

	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Field operations	\$ 2,529	\$ 908
\$/boe	\$ 18.20	\$ 14.21

Transportation and marketing costs

Total transportation and marketing costs for the quarter ended March 31, 2011 amounted to \$370 thousand, or \$2.67/boe, compared to \$104 thousand or \$1.62/boe, during the quarter ended March 31, 2010. The higher transportation costs reflect a change in the marketing of the Company's oil production, whereby increased transportation costs are more than offset by higher oil prices.

	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Transportation and marketing costs	\$ 370	\$ 104
\$/boe	\$ 2.67	\$ 1.62

Operating netbacks

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

Netback per boe	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Revenue	\$ 63.83	\$ 46.76
Royalties	(8.85)	(10.47)
Field operations	(18.20)	(14.21)
Transportation and marketing	(2.67)	(1.62)
\$/boe	\$ 34.11	\$ 20.46

The operating netback for the three months ended March 31, 2011 was \$34.11/boe compared to \$20.46/boe in the first quarter of 2010. The higher netback is largely the result of a shift to a proportionately higher oil production base, as the price and Novus' weighting of this commodity improved considerably compared to 2010.

General and administrative expenses

Total general and administrative expenses during the first quarter of 2011 amounted to \$1.4 million compared to \$1.18 million a year ago. Going forward, while the Company anticipates small increases to general and administrative expenditures on an absolute basis, they should decrease on a per boe basis as new production is added and comes on stream.

Exploration and evaluation expenses

Exploration and evaluation expenditures is a new line item under IFRS, and includes such amounts as unsuccessful drilling costs, pre-license expenditures and carrying costs on non-producing lands. The Company previously capitalized and depleted these expenditures as part of its property and equipment account. Exploration and evaluation expenses for the three months ended March 31, 2011 were \$nil compared to \$6 thousand for the comparative quarter.

Finance costs

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

The breakdown of these costs is as follows:

Finance costs	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Interest	\$ 25	\$ -
Accretion of decommissioning liabilities	80	40
Total	\$ 105	\$ 40

Finance costs per boe	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Interest	\$ 0.17	\$ -
Accretion of decommissioning liabilities	0.59	0.62
Total (\$/boe)	\$ 0.76	\$ 0.62

Stock-based compensation

The Company accounts for stock-based compensation using the fair-value method. Under this method, compensation expense is recorded over the vesting terms of the options. During the first quarter of 2011, \$1.38 million of stock-based compensation expense was recognized, which compares to \$649 thousand in the first quarter of 2010. The increase stems from expensing a portion of the options which were granted in the fourth quarter of 2010.

No compensation expense has been recorded for the performance warrants as management does not expect the performance warrants to vest based on current NAV per share projections.

Depletion and depreciation

Total depletion and depreciation expense for the quarter ended March 31, 2011 amounted to \$3.33 million (\$23.97/boe) versus \$1.38 million (\$21.53/boe) for the quarter ended March 31, 2010. The higher charge largely reflects the increased value of the Company's assets.

No impairment of assets was recognized for the period ended March 31, 2011, however, during 2010 and under IFRS, the Company recorded \$7.61 million worth of impairments over four different Cash Generating Units ("CGUs"). These impairments, which are recorded over the last three quarters of 2010, arose as a result of lower commodity prices and values on certain natural gas producing properties and a reduction in reserves and value for one petroleum producing property in Northwest Alberta.

Income taxes

The \$110 thousand charge for current income taxes during the quarter ended March 31, 2011 is the result of the Saskatchewan Resource Surcharge on the Company's Saskatchewan production revenue. This is up from the \$29 thousand recorded in the comparative period as a result of the Company's production growth in Saskatchewan.

The following is a summary of the estimated tax pools of the Company as at March 31, 2011:

Classification	Pool balance
Non-capital loss carry-forwards	\$ 56,730
Canadian development expenditures	47,349
Canadian oil and gas property expenditures	36,832
Capital cost allowance	20,725
Canadian exploration expenditures	20,525
Scientific research and development	18,899
Share issue costs	4,133
Other	248
	\$ 205,441

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

Year		Amount
2013	\$	4,672
2014		1,898
2022 – 2031		50,160
Total non-capital loss carry-forwards	\$	56,730

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

	Three months ended	
	Mar 31, 2011	Mar 31, 2010
Net income (loss)	\$ (1,332)	\$ (1,837)
Per share (basic and diluted)	(0.01)	(0.01)
Funds flow from (used in) operations ⁽¹⁾	3,208	(85)
Per share (basic and diluted)	0.02	-
Cash flow from (used in) operations	2,791	(520)
Per share (basic and diluted)	0.02	-
Weighted average shares outstanding	168,248	128,781

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

Capital expenditures

During the first quarter of 2011, the Company recorded \$12.25 million of capital expenditures compared to \$5.93 million during the same quarter of 2010. During the first three months of 2011, the Company participated in the drilling of five wells (4.1 net), of which three (3.0 net) were horizontal wells at Dodsland, Saskatchewan and one (1.0 net) was a vertical well at Wembley. Four (3.1 net) wells were completed in the quarter and recompletions were done on an additional eight (8.0 net) wells. Infrastructure and continuing tie-in costs on the prior quarter's drilling program rounded out the balance of the expenditures. A further breakdown of the capital expenditures is outlined below:

	Three months ended	
	Mar 31, 2011	Mar, 2010
Land acquisition/retention	\$ 13	\$ 22
Geological, geophysical and seismic	-	117
Drilling and completions	9,145	5,009
Alberta drilling royalty credits	-	(202)
Equipping and tie-in	3,086	(110)
Property acquisitions	-	924
Furniture and fixtures	8	172
	\$ 12,252	\$ 5,932

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

The Company considers its capital structure to consist of working capital, including bank debt. The Company manages its capital structure in order to meet its financial obligations and sustain the future development of the Company. The Company's Officers are responsible for managing the Company's capital and do so through quarterly meetings and regular reviews of financial information including budgets and forecasts. The Company's Directors are responsible for overseeing this process. Methods used by the Company to manage its capital include the issuance of new share capital to raise additional funds and adjusting its capital spending to manage current and projected debt levels. The Company continually monitors business conditions including: changes in economic conditions; the risk of its drilling programs; forecasted commodity prices; and potential corporate or asset acquisitions. There were no changes in the Company's approach to capital management during the three months ended March 31, 2011.

The Company monitors its capital structure using primarily the non-GAAP measurement ratio of net debt to funds flow from operations, annualized from the most recent quarter. The objective is to maintain this ratio below 1.5:1, although this ratio may temporarily increase at certain times as a result of acquisitions or other significant capital expenditures for which the full quarterly effect of funds flow has not yet been accounted for. As at March 31, 2011 the ratio of net debt to funds flow from operations was 0.7:1 calculated as follows:

	Three months ended	
	Mar 31, 2011	
Current assets	\$	5,649
Current liabilities		(14,307)
Net debt		(8,658)
Cash flow from operations	\$	2,791
Changes in non-cash working capital items		383
Decommissioning expenditures		34
Funds flow from operations		3,208
Annualized funds flow from operations		12,832
Net debt to annualized funds flow from operations		0.7:1

The Company's share capital is not subject to any external restrictions; however its credit facilities are subject to periodic reviews. The credit facilities also contains certain covenants such that the Company cannot, without prior approval of the bank, hedge or contract petroleum or natural gas volumes, on a fixed price basis, exceeding 50% of production volumes, nor can it monetize or settle any fixed price financial hedge or contract. The credit facilities also contain a financial covenant that requires the Company to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, bank debt and the fair value of any commodity contracts are excluded and the unused portion of the revolving operating demand loan may be added to current assets. As at March 31, 2011, this ratio was 2.1:1.

Equity instruments

During the first quarter of 2011, the Company issued 2,850,150 common shares on the exercise of share purchase warrants; 72,500 common shares on the exercise of incentive stock options; and repurchased and cancelled 165,000 common shares pursuant to its normal course issuer bid.

As at March 31, 2011, the Company had the following equity instruments outstanding:

Common shares outstanding	169,719
Issuable upon the exercise of outstanding share purchase warrants	23,426
Issuable upon the exercise of outstanding stock options	15,362
Issuable upon the exercise of outstanding performance warrants	4,200
Total equity instruments outstanding	212,707

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

Date of Issue	Number of Warrants	Exercise Price	Date of Expiry
Mar 31, 2009	23,426	\$ 0.75	Mar 31, 2012

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

Date of Grant	Number of Options	Exercise Price	Date of Expiry
Feb 12, 2007	30	\$ 3.00	Feb 12, 2012
Jul 16, 2008	247	\$ 2.00	Jul 16, 2013
Sep 4, 2009	3,000	\$ 0.60	Sep 4, 2014
Feb 9, 2010	3,850	\$ 0.88	Feb 9, 2015
Jun 17, 2010	400	\$ 1.10	Jun 17, 2015
Oct 1, 2010	550	\$ 0.90	Oct 1, 2015
Nov 1, 2010	7,000	\$ 0.85	Nov 1, 2015
Nov 23, 2010	225	\$ 0.90	Nov 23, 2015
Feb 10, 2011	60	\$ 1.23	Feb 10, 2016
	15,362	\$ 0.84	

The Company's 4,200,000 performance warrants were granted on September 4, 2009 for a term of three years. Each performance warrant is exercisable into one common share at a price of \$0.56 per performance warrant upon the Company achieving certain targets in growth in net assets value per fully diluted share outstanding ("NAV per share"). With reference to the initial NAV per share calculated as \$1.10, 1/3 of the performance warrants shall vest upon an increase in NAV per share of 25%, 2/3 of the performance warrants shall vest upon an increase in NAV per share of 33 1/3%, and all of the performance warrants shall vest upon an increase in NAV per share of 50%. The performance warrants will also vest upon a change of control of the Company. As of March 31, 2011, none of the performance warrants have vested.

As of the date of this MD&A, Novus has 170,229,812 common shares outstanding. A further 22,689,600 common shares are reserved for issuance pursuant to the exercise of outstanding shares purchase warrants; 15,362,000 common shares pursuant to the exercise of outstanding stock options; and 4,200,000 common shares pursuant to the exercise of outstanding performance warrants.

Working capital and bank debt

At March 31, 2011, the Company had a working capital deficit of \$8.66 million compared to \$1.84 million at December 31, 2010. Components of the working capital figures are contained in the following table:

	Mar 31, 2011	Dec 31, 2010
Cash and cash equivalents	\$ 67	\$ 5,063
Accounts receivable	4,778	5,134
Deposits and prepaid expenses	804	553
Accounts payable and accrued liabilities	(12,409)	(12,590)
Bank debt	(1,898)	-
Total working capital (deficit)	\$ (8,658)	\$ (1,840)

As at the date of this MD&A, the Company has available a \$30 million revolving operating demand loan (\$22 million at March 31, 2011) and a \$10 million acquisition/development demand loan (\$6 million at March 31, 2011). The loans are available to the Company by way of prime rate based loans, bankers' acceptance and letters of credit/guarantee with interest paid monthly. Interest on the revolving operating demand loan is payable at prime plus 0.75%, while interest on the acquisition/development demand loan is prime plus 1.25%. The credit facilities are secured by a general assignment of book debts and a \$75 million debenture with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges upon request. The credit facility is subject to a financial covenant that requires the Company to maintain a working capital ratio of at least 1:1, but for the purposes of the covenant, bank debt and the fair value of any commodity contracts are excluded and the unused portion of the revolving operating demand loan may be added to current assets. As at March 31, 2011, this ratio was 2.1:1.

The credit facility is subject to periodic review by the bank, with the next review scheduled on or before October 1, 2011.

COMMITMENTS AND CONTINGENCIES

As at March 31, 2011, the Company had commitments as follows:

	2011	Thereafter
Office Lease	\$ 263	\$ -

Subsequent to March 31, 2011, the Company signed an agreement to lease additional office space, as its current lease expires July 31, 2011. The new lease agreement commits the Company as follows:

	2011	2012	2013	Thereafter
Office Lease	\$ 211	\$ 632	\$ 579	\$ -

SUMMARY OF QUARTERLY RESULTS

	Three months ended ⁽¹⁾			
	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010
Petroleum and natural gas sales	\$ 8,871	\$ 7,979	\$ 6,155	\$ 3,088
Funds flow from (used in) operations	3,208	2,444	2,046	(712)
per share – basic and diluted	0.02	0.01	0.01	-
Net income (loss)	(1,332)	3,912	(4,808)	(4,501)
per share – basic and diluted	(0.01)	0.02	(0.03)	(0.03)
Cash capital expenditures, net	12,252	18,609	10,469	20,129
Average daily production (boe/d)	1,544	1,571	1,339	774
Average selling price (\$/boe)	63.83	55.21	49.95	43.81
Operating Netback (\$/boe)	34.11	29.90	26.18	10.21
Weighted average shares – basic	168,248	166,395	166,373	153,288
Weighted average shares – diluted	168,248	170,612	166,373	153,288

	Three months ended ⁽¹⁾			
	Mar 31, 2010	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009
Petroleum and natural gas sales	\$ 2,987	\$ 1,156	\$ 839	\$ 804
Funds flow from (used in) operations	(85)	(829)	(559)	(476)
per share – basic and diluted	-	(0.01)	(0.01)	(0.01)
Net income (loss)	(1,837)	(2,233)	(1,800)	(1,415)
per share – basic and diluted	(0.01)	(0.04)	(0.04)	(0.03)
Cash capital expenditures, net	5,932	10,034	(40)	329
Average daily production (boe/d)	710	327	345	327
Average selling price (\$/boe)	46.76	38.47	26.45	29.96
Operating Netback (\$/boe)	20.46	9.60	3.02	7.88
Weighted average shares – basic	128,781	60,687	42,755	42,755
Weighted average shares – diluted	128,781	60,687	42,755	42,755

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

Production in the third calendar quarter of 2009 rose as previous operational and cold weather issues at Eight Mile, Kaybob, and Garrington, became resolved. Production for the last quarter of 2009 was adversely impacted by shut-in oil production at Cardiff and Wembley as well as severe cold weather curtailing gas production during December. Volumes increased in the first quarter of 2010 due to wells drilled in the previous quarter coming on stream, three full months of production resulting from the December 2009 business combination with Ammonite Energy Ltd and one month of production from the two March 2010 business combinations. Increases for the second quarter of 2010 were due to new production from wells drilled in the first and second quarters of 2010 and a full quarter of production from the 2010 business combinations. Increases for the third and fourth quarters of 2010 were due to the production from the new wells drilled, completed, and placed onstream in an ongoing fashion. Production in the first quarter of 2011 fell marginally as normal production declines were not completely offset by the few new wells coming on production.

Production revenue is a function of sales volumes and commodity prices, so while volumes didn't fluctuate significantly in 2009, declining commodity prices negatively impacted production revenue. The turnaround in prices over the last quarter of 2009 helped boost that period's sale figures, in spite of the reduced volumes. While oil prices continued their recovery in 2010, gas prices slowly declined. Most of the Company's added volumes in the third and fourth quarters of 2010 were from oil, which improved the revenue figure. Oil prices continued to rise in the first quarter of 2011, with gas prices sustaining a mild recovery, helping boost the revenue figure.

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

The net loss increased through the last half of 2009 due largely to higher non-cash items, such as depletion charges and stock-based compensation costs. The net loss in the second and third quarters of 2010 included impairment write-downs, while the turnaround in the fourth quarter of 2010 was attributable to a deferred income tax recovery of \$12.5 million. The net loss for the first quarter of 2011 showed improvement, principally as a result of increased commodity prices as discussed above.

The largest components of the cash capital expenditures in 2009 were asset acquisitions of \$7.35 million in the last calendar quarter, along with the drilling of seven wells (4.5 net), primarily at Dodsland. The 2010 figures include the drilling of 50 wells (42.6 net), of which 43 (37.6 net) were horizontal wells in the greater Dodsland area. The 2010 second quarter figures include undeveloped land and property acquisitions of \$4.5 million and \$2.2 million respectively, while the fourth quarter capital program included the construction of two batteries in the greater Dodsland area. The capital expenditure figures do not include non-cash transactions and business combinations. For the first quarter of 2011, capital expenditures consisted of drilling and completions in both Dodsland and the Company's northwest Alberta areas along with related infrastructure construction.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at March 31, 2011 consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and bank debt. The fair value of these instruments approximates their carrying value due to their short-term nature.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value as of March 31, 2011.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 67	\$ -	\$ -	\$ 67
Total	\$ 67	\$ -	\$ -	\$ 67

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

Credit Risk

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

Substantially all of the Company's accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal industry credit risks. The Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. Receivables from joint venture partners are typically collected within one to three months of the joint venture billing being issued, however collection is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling, and disputes amongst partners. The Company attempts to mitigate credit risk from joint venture partners by obtaining partner approval of significant capital costs prior to expenditure. While the Company does not typically obtain collateral from joint venture partners, it may cash call a partner in advance of the work being done. In addition, the Company has the ability to withhold production from partners in the event of non-payment. Should any of the Company's customers or partners be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to losses arising from accounts receivable and cash and cash equivalents is equal to their total carrying amounts on the balance sheet. During the three months ended March 31, 2011, the Company has a provision for doubtful accounts in the amount of \$175 thousand. Although an allowance has been provided, the Company will continue to pursue collection of the balance. The allowance may be adjusted if circumstances or events change. When determining whether past due accounts are collectible, the Company factors in the past credit history of the counter parties.

As at March 31, 2011, the Company's accounts receivable were comprised of the following:

Sales revenue receivable	\$	3,198
Joint interest receivable		1,192
Cash call receivable		91
Accrued and other receivable		297
Total accounts receivable	\$	4,778

As at March 31, 2011, the Company estimates its accounts receivables to be aged as follows:

Total accounts receivable	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 4,778	\$ 3,803	\$ 161	\$ 144	\$ 670

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

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

Liquidity risk

This is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to ensure that it has sufficient resources available to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn. At March 31, 2011, the Company's accounts payable and accrued liabilities were \$12.41 million, all of which are due for payment within normal terms of trade, which are generally between 30 and 60 days. As at March 31, 2011, the Company has cash on hand of \$67 thousand and a \$22 million revolving operating demand loan to manage its liquidity and settlement of liabilities.

The Company's financial liabilities at March 31, 2011 are aged as follows:

Total accounts payable and accrued liabilities	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 12,409	\$ 8,053	\$ 2,522	\$ 912	\$ 922

The Company expects to satisfy its obligations under accounts payable and accrued liabilities within the next year. As well, the Company is required to meet certain financial commitments as described in the commitments and contingencies section of this MD&A.

Foreign currency exchange risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada are impacted by changes in the exchange rate between the Canadian and United States dollar and the impact of such exchange rate fluctuations cannot be accurately quantified. The Company had no forward exchange rate contracts in place, nor any working capital items denominated in foreign currencies, as at or during the three months ended March 31, 2011.

Commodity price risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are not only impacted by the relationship between the Canadian and United States dollar as outlined above, but also by world economic events that dictate the

levels of supply and demand. The Company had no commodity contracts locking in petroleum or natural gas prices as at or during the three months ended March 31, 2011.

Interest rate risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. From time to time, the Company may attempt to mitigate this risk by utilizing short-term bankers' acceptances to lock in a portion of its bank debt at fixed rates. No interest rate swaps or financial contracts were in place as at or during the three months ended March 31, 2011.

Operational risks

Novus' operational activities are focused on the Western Canadian Sedimentary Basin, a competitive environment with a number of companies exploring for hydrocarbons. Other operational risks include weather delays, mechanical or technical difficulties, and exploration risks associated with finding economically viable hydrocarbon reserves. Novus attempts to manage these risks by maintaining an inventory of certain critical equipment; conducting advance planning to manage its drilling programs in an efficient and cost effective manner; and hiring experienced technical staff and personnel to conduct its exploration programs.

Novus' field operations are also subject to health, safety and environmental risks. The Company maintains a Health, Safety and Environmental Policy and an Emergency Response Plan which are updated bi-annually or as needed to comply with current legislation. Both are designed to protect the health and safety of all concerned persons in addition to respecting any environmental regulations. Novus also maintains insurance covering property, drilling, pollution, and commercial general liability.

Financial Risks

Financial risks faced by the Company include fluctuations in commodity prices, US/Canadian foreign exchange rates, interest rates, the ability to access capital and/or debt markets, and credit risks associated with its joint venture partners and purchasers. At times, Novus may hedge a portion of its production, or lock in foreign exchange or interest rates. It also attempts to mitigate overall financial risks by maintaining a positive working capital position; having a flexible capital program; and managing its reliance on joint venture partners.

Regulatory Risks

Novus is subject to various policies and legislation governing the oil and gas industry. Although these policies are out of Novus' direct control, the Company is a member of the Small Explorers and Producers Association of Canada, which, amongst other things, represent the interests of junior oil and gas companies to the public, governments, and other sectors of the energy industry in Canada. Novus operates in a manner that is in compliance with applicable regulations and industry standards and must react to comply with changes as they occur.

CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Adoption of International Financial Reporting Standards ("IFRS")

The Company prepared its March 31, 2011 interim financial statements in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards" and with IAS 34 "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its financial statements in accordance with Canadian GAAP.

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

the 2010 IFRS financial statements, refer to Note 16 of the March 31, 2011 condensed interim financial statements.

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

i) Exploration and evaluation (“E&E”) assets

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

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

ii) Depletion expense

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

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

iii) Impairment

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

iv) Decommissioning liabilities

Novus’ decommissioning liabilities (Asset retirement obligations under previous GAAP) have increased under IFRS as a result of the change from a credit-adjusted risk-free rate used to discount cash flows, to a risk-free rate. In addition, future changes in the discount rate will affect the entire obligation. The obligation under IFRS is measured as the best estimate of the expenditures to be incurred and requires that the obligation be re-measured using period end risk-free discount rates.

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

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

CURRENT ECONOMIC CONDITIONS AND TRENDS

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

The first trend currently affecting the oil and gas industry, as well as many other industries, is the impact on capital markets caused by investor uncertainty in the credit markets and the global economy. Global economics ultimately dictate commodity demand and therefore prices. Novus realizes that it is a price taker and therefore must maintain financial flexibility to deal with uncertain commodity prices. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. Some companies will have to rely on internally generated funds to conduct their exploration and developmental programs. Novus is unable to estimate the timing or magnitude of stock market corrections.

A second trend is the volatility of commodity prices. Natural gas is a commodity increasingly influenced by liquefied natural gas coming from outside of North America and intensive shale gas drilling within North America. In addition, North American fluctuations in supply, influenced by drilling activity, natural gas storage levels, imports and demand (which is impacted both by weather and by economic factors) has resulted in significant volatility in the price of natural gas in Canada and the United States.

Crude oil is influenced by the world economy and Organization of the Petroleum Exporting Countries ("OPEC") ability to adjust supply to world demand. Recently crude oil prices have been kept high by increased demand from growing economies in China and India as well as the ongoing political events causing disruptions in the supply of oil, and concern over potential supply disruptions triggered by unrest in the Middle East. More recently, volatility has increased over short term demand concerns as a result of the slow economy in the United States.

The impact on the oil and gas industry from commodity price volatility is significant. Historically, during periods of high prices, producers generated higher cash flows and conducted active exploration programs without external capital. Higher commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods.

A third trend, and one that will continue to garner heightened attention and consequently increased governmental intervention, is an increasing call for carbon capture due to greenhouse gas emissions. Capital requirements to meet emission standards could be enormous and are directly impacted by events such as the Kyoto Protocol and Copenhagen Accord. Novus realizes that it will be required to meet governmental standards as they are introduced and must maintain the financial flexibility to do so.