



NORDIC
OIL AND GAS LTD

MANAGEMENT'S DISCUSSION AND

ANALYSIS FOR THE YEAR ENDED

DECEMBER 31, 2008

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General

The following discussion of performance, financial condition and future prospects should be read in conjunction with the Company's financial statements and notes attached thereto for the 12 months ended December 31, 2008. The Company's financial statements are prepared in accordance with Canadian General Accepted Accounting Principles (GAAP). All figures are in Canadian dollars, unless otherwise noted. Additional information on the Company is available on the SEDAR website at www.sedar.com.

This Management Discussion & Analysis was prepared on April 20, 2009.

Forward Looking Statements

Certain statements contained in this Management Discussion & Analysis document constitute forward-looking statements. These forward-looking statements can generally be identified as such because of the context of the statements, including such words as "believes", "anticipates", "expects", "plans", "may", "estimates", or words of a similar nature. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from anticipated future results and/or achievements expressed or implied by such forward-looking statements, which speak only as of the date the statements were made. Readers are therefore advised to consider the risks associated with any such forward-looking statements.

In certain parts of this document, the term BOE is used. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Corporate Overview

Nordic Oil and Gas Ltd. ("Nordic", or "the Company") is an, oil, natural gas and Coal Bed Methane (CBM) exploration and development company headquartered in Winnipeg, Manitoba, Canada. The Company is listed on the TSX Venture Exchange under the symbol: NOG.

Nordic Properties

As at December 31, 2008, Nordic had an 85% interest in 4,480 gross acres of land in Joffre, Alberta, Canada, approximately 30 kilometres east of Red Deer. As at this date, the Company had six wells on production on its Joffre lands – four Belly River wells, one Viking well and one CBM well. Furthermore, the Company also has three CBM wells drilled and cased, and another Belly River well awaiting tie-in.

Nordic also has an 80% interest in 31,999 gross acres of P & NG leases, with rights to the basement, at Preeceville, Saskatchewan. There is no production coming from Saskatchewan at present.

In addition, the Company has a 100% interest in approximately 1,000 acres in the Lloydminster region of Alberta. At the end of December 2008, Nordic had five oil wells on production at Lloydminster.

Further, Nordic also has a 100% ownership position in approximately 7,000 acres of Petroleum & Natural Gas leases in the Talbot Lake region of the Peace River Arch.

Critical Accounting Estimates & Changes in Accounting Policies

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (“Canadian GAAP”) requires the Company to select from possible alternative accounting policies and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Management believes that the estimates and assumptions upon which the Company relies are reasonable based on information available at the time those estimates and assumptions were made. Estimates and assumptions may be revised as new information is acquired, and are therefore subject to change.

Nordic has begun examining its processes to meet the accounting regulatory changes in 2011. Over the next year the Company will begin adopting the new IFRS standards as required by the Canadian Securities Commission. The Company expects to have its 2010 filings meet the required standards for comparative purposes.

Financial Instruments

Capital disclosures

On January 1, 2008, the Company prospectively adopted CICA Section 1535 Capital Disclosures. This Section establishes standards for disclosing information about an entity’s objectives, policies and processes for managing its capital structure.

Financial instruments

On January 1, 2008, the Company prospectively adopted the following two new CICA standards: Financial Instruments – Disclosures (Section 3862) and Financial Instruments – Presentation (Section 3863), which replace Financial Instruments – Disclosure and Presentation (Section 3861). The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward former presentation requirements.

General standards of financial statement presentation

On January 1, 2008, the Company prospectively adopted CICA Section 1400 General Standards of Financial Statement Presentation. This amended Section provides additional guidance on the assessment and disclosure of an entity's ability to continue as a going concern.

Change in accounting policies

On January 1, 2007, the Company adopted the following new accounting standards that were issued by The Canadian Institute of Chartered Accountants (“CICA”): CICA Handbook Section 1530, “Comprehensive Income”; Section 3855, “Financial Instruments – Recognition and Measurement”; Section 3861, “Financial Instruments – Disclosure and Presentation”; and Section 3865, “Hedges”. The adoption of these new standards resulted in changes in the accounting for financial instruments. The Company adopted these standards at the beginning of the year and, in accordance with the transitional provisions, the prior period balances were not restated.

The adoption of Section 1530 and 3855 had the following impact on the opening deficit of the Company:

January 1, 2007
 Deferred costs – decrease \$ 114,901
 Deficit – increase \$ 3,379
 Convertible debenture – decrease \$ 111,522

Internal Controls Over Financial Reporting

The Chief Executive Officer and the Treasurer of Nordic Oil and Gas Ltd. are responsible for designating internal controls over financial reporting, or causing them to be designed under their supervision in order to provide reasonable assurance regarding their reliability and the preparation of financial statements for external purposes in accordance with GAAP.

Analysis of Revenue, Cash Flows and Assets – 12 Months Ended December 31, 2008

Revenue from oil and natural gas sales (including liquids and transport revenue) in 2008 totaled \$1,487,971 compared to \$588,152 in 2007. Total revenue (including interest income) was \$1,564,973 as compared to \$595,975 a year ago. The revenue increase is a direct result of the start of production in the third quarter from the Company's heavy oil wells in Lloydminster.

Net cash flow from operating activities (cash received from operators minus cash paid to suppliers and for royalties) was up \$340,863 for 2008 to \$472,803 as compared to \$131,940 in 2007. This was due to the aforementioned increase in revenue for the year.

Cash, short term investments, accounts receivable, deposits and deferred costs for the year totaled \$3,090,315 on par with the \$3,128,304 at the end of December, 2007.

Cash, including short-term investments at the end of the year was \$2,716,110, as compared to \$2,248,579 at the end of 2007. This increase was due to the rise in short term investments, which more than offset the drop in cash, plus a substantial increase in deposits.

The following table outlines the Company's revenue totals on a yearly comparative basis:

	REVENUE	
	<u>12 Months Ended December 31, 2008</u>	<u>12 Months Ended December 31, 2007</u>
	\$	\$
Oil and gas revenue *	1,487,971	588,152
Interest income	77,002	7,823
Total revenue	1,564,973	595,975
* Includes liquids and transport revenue		

Total assets as at December 31, 2008 were \$14,113,291 up significantly – 83% - from the 2007 total of \$7,713,059. The main reasons for the increase are the large jump in short-term investments to \$2,554,938 from \$204,191 and, the nearly \$6.3 million increase in property and equipment.

The table on the following page sets out the Company's Assets for the years ended December 31, 2008 and 2007:

ASSETS		
Current Assets	12 Months Ended December 31, 2008	12 Months Ended December 31, 2007
	\$	\$
Cash & cash equivalents	161,172	2,044,388
Short term investments	2,554,938	204,191
Accounts receivable	374,205	879,725
Fixed Assets		
Property & equipment	10,857,791	4,543,811
Other assets	165,185	40,944
Total Assets	14,113,291	7,713,059

Analysis of Expenses

Overall expenses, not including royalty costs, increased by approximately \$913,000 on a comparative basis to \$2,538,902 for the year ended December 31, 2008 compared to \$1,625,752 for the year prior. The primary reason for the increase in total expenses was the rise in operating costs to \$707,268 from \$258,913, and increases in G & A expenses to \$860,743 from \$576,742, and in depletion and amortization expense to \$529,196 from \$259,886.

Royalties & Production Expenses

Royalties paid in 2008 net of Alberta royalty tax credits, totaled \$307,900 as opposed to \$197,299 in 2007. Total well expenses were slightly higher during the year as opposed to 2007, due to the increase in the number of producing wells that the Company had in operation last year. As was the case in 2007, the majority of the production costs in 2008 were attributable to the operating costs.

The following table outlines the changes in the major categories for the years ended December 31, 2008 and 2007:

EXPENSES		
	12 months Ended Dec. 31, 2008	12 Months Ended Dec 31, 2007
	\$	\$
Depletion & Amortization Expense	529,196	259,886
Operating Costs	707,268	258,913
General & Administrative Expenses	860,743	576,742
Stock Based Compensation	441,695	530,211
Total Expenses These Categories	2,538,902	1,625,752

(1) Under accounting reporting requirements, Nordic Oil and Gas has to prepare an estimate of the cost related to stock options issued as an expense on its income statements. Options issued by the Company in 2004 and in subsequent years were accounted for in accordance with the fair

value method of accounting for stock-based compensation, and as such, the cost of the options is charged to income with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value. During the year ended December 31, 2008 stock options having an estimated value of \$441,695 were issued.

Balance Sheet

Gross Profit from operating activities (production revenue minus production costs, not including royalties paid) totaled \$780,703 for the year ended December 31, 2008, compared to \$329,239 for the same period in 2007.

The net loss for the year was down slightly from that which was recorded in 2007 - \$995,869 versus \$1,129,051. The decrease in the 2008 loss can be attributed to the aforementioned rise in the Company's revenue. Net loss per share in 2008 was \$0.02 compared to a net loss per share of \$0.06 in 2007.

Total liabilities at the end of 2008 were \$4,020,564 compared to \$1,433,469 as at December 31, 2007. The increase is due largely to the rise in accounts payable to \$2,151,480 from \$247,416 and the future tax liability to \$990,045 from \$232,249 last year.

Summary of Quarterly Results

The table below sets out selected quarterly financial results for the past eight quarters:

Three Months Ended:	<u>12/31/08</u>	<u>09/30/08</u>	<u>06/30/08</u>	<u>3/31/2008</u>
Cash & Short-term investments	\$2,716,110	\$3,144,314	\$5,804,867	\$4,316,729
Revenue	\$ 525,554	\$ 437,694	\$ 375,622	\$ 149,101
Net Income (Loss)	\$(358,939)	\$(309,292)	\$(203,193)	\$(124,445)
Earnings (Loss) per share	\$ (0.002)	\$(0.0072)	\$ (0.003)	\$ (0.003)

Three Months Ended:	<u>12/31/07</u>	<u>09/30/07</u>	<u>06/30/07</u>	<u>3/31/07</u>
Cash & Short-term Investments	\$2,248,579	\$ 6,624	\$ 9,876	\$ 130,297
Revenue	\$ 91,870	\$139,537	\$ 175,429	\$ 189,139
Net Income (Loss)	\$(761,984)	\$(12,321)	\$(239,056)	\$(115,690)
Earnings (Loss) per share	\$(0.0177)	\$(0.0006)	\$ (0.015)	\$ (0.06)

An analysis of the quarterly results over the last eight quarters shows some significant variables in revenue totals, ranging from a high of \$525,554 in Q4 2008 to a low of \$91,870 in Q4 2007. Revenue grew throughout 2008, in comparison to 2007 due largely to the increase in commodity prices during the first half of the year and the increased number of wells on production in the second half, which offset the rapid drop in oil prices. Cash and short-term investments also grew substantially beginning in Q4 2007 – this was due to the various successful financings the

Company undertook in late 2007 and in the first half of 2008. The size of the loss grew over the year under review due largely to increased operating and G & A expenses.

From time to time, net income is negatively impacted due to the costs related to stock options, Asset Retirement Obligation (ARO), or Site Reclamation, and higher depletion and amortization costs are recorded as expenses on the income statement. For 2008, ARO costs were \$524,539 however as noted, depletion and amortization costs for 2008 were substantially lower than in prior year.

Oil and Gas Interests

Following is a summary of the oil and gas interests owned by the Company, their depletion using the units-of-production method, their cost, accumulated depletion and resulting net book value:

	<u>December 30, 2008</u>		<u>December 30, 2007</u>	
	Cost	Accumulated Depletion	Cost	Accumulated Depletion
Oil and gas	\$12,863,934	\$2,748,161	\$6,776,423	\$2,246,945

Net book value for oil and gas for 2008 was \$10,115,773, compared to \$4,529,478 in 2007.

The remaining value of the oil and gas asset is comprised of costs that were unrealized at statement date. During the year, exploration drilling was completed on two wells in the Preeceville area of Saskatchewan, two new wells were drilled in Lloydminster (four well bores were also brought on stream) and a new Belly River well was drilled in Joffre.

Product Prices and Production Totals

The Company had six wells on production in Joffre as of December 31, 2008 – four Belly River, one Viking well and one CBM well – and five heavy oil wells on production at Lloydminster.

Results from operations and the Company's overall financial condition are significantly affected by natural gas commodity prices, which can fluctuate dramatically. These commodity prices are beyond the control of the Company and are difficult to predict. Gas volumes and realization comparisons for the indicated periods are set forth below. It should be noted that the Company does not hedge any of its production:

The following data summarizes certain information in respect of production, product prices received, royalties paid, production costs and resulting netback for each quarter of Nordic's most recently completed financial period. It should also be noted that approximately 11% of the Company's natural gas production 2008 came from its Coal Bed Methane well, with the remaining 89% coming from conventional natural gas wells.

Natural Gas Production Quarterly Comparisons

2008

2007

1. Average daily Natural Gas production volume (before deduction of royalties):	
Q1: 250.14GJ/Day	Q1: 287.30GJ/Day
Q2: 399.71GJ/Day	Q2: 286.03GJ/Day
Q3: 400.57GJ/Day	Q3: 244.25GJ/Day
Q4: 357.22GJ/Day	Q4: 278.51GJ/Day

2. Average per GJ of Natural Gas volume – prices received

Q1: \$7.49/GJ	Q1: \$7.02/GJ
Q2: \$9.68/GJ	Q2: \$6.70/GJ
Q3: \$7.34/GJ	Q3: \$4.91/GJ
Q4: \$6.33/GJ	Q4: \$5.82/GJ

3. Average per unit of Natural Gas volume – royalties paid:

Q1: \$1.10/unit of volume	Q1: \$1.15/unit of volume
Q2: \$2.90/unit of volume	Q2: \$1.86/unit of volume
Q3: \$2.51/unit of volume	Q3: \$0.83/unit of volume
Q4: \$2.69/unit of volume	Q4: \$4.04/unit of volume

4. Average per unit of Natural Gas volume – production costs:

Q1: \$2.55/unit of volume	Q1: \$2.28/unit of volume
Q2: \$3.53/unit of volume	Q2: \$2.05/unit of volume
Q3: \$0.40/unit of volume	Q3: \$1.95/unit of volume
Q4: \$0.78/unit of volume	Q4: \$4.14/unit of volume

5. Average per Unit of Volume of Natural Gas volume – resulting netback:

Q1: \$3.5038/unit of volume	Q1: \$3.5155/unit of volume
Q2: \$3.0791/unit of volume	Q2: \$2.9380/unit of volume
Q3: \$4.3326/unit of volume	Q3: \$2.9380/unit of volume
Q4: \$4.6520/unit of volume	Q4: \$15.2218/unit of volume

6. Average production volumes & weighted price received for Natural Gas for the years ended December 31:

2008

Average daily gas production volume GJ/day – 352.34
 Average daily gas production volume 10³M³/day – 9.68
 Average BOE/day for the year – 71.60
 Weighted average price received per GJ - \$7.58

2007

Average daily gas production volume GJ/day – 274.02
 Average daily gas production volume 10³M³/day – 8.39
 Average BOE/day for the year – 46.72
 Weighted average price received per GJ - \$6.11

NOTE: To convert GigaJoules (GJ) to Mcf, divide the number of GJ by 1.05

Heavy Oil Production

The Company commenced production of heavy oil from its Lloydminster wells in August 2008. As such, there is no comparison available for 2007 and 2008 figures are available only for Q3 and Q4:

1. Average daily Heavy Oil production volume:

- Q3 2008: 40 BBL/D
- Q4 2008: 66 BBL/D

2. Average Enstream net price received:
 - Q3 2008: \$552.36
 - Q4 2008: \$285.32
3. Average royalties paid \$/BBL **
 - Q3 2008: \$3.98
 - Q4 2008: \$2.16
4. Average production costs \$/BBL
 - Q3 2008: \$6.84
 - Q4 2008: \$4.99
5. Average resulting netback \$/BBL
 - Q3 2008: \$68.56
 - Q4 2008: \$39.63

**** *The first three months of production are free from Crown Royalties***

Liquidity and Capital Resources

The Company's financial statements are prepared on a going concern basis that contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. At December 31, 2008 the Company had an operating loss before income tax recovery of \$1,438,685 versus \$1,370,566; however, when the future income tax recovery is applied, the net loss for the year is reduced to \$995,869, compared to \$1,129,051 last year. Further, the Company also used \$600,203 of cash in its fourth quarter operations.

Also, during the year ended December 31, 2008, the Company had an unexpended flow-through obligation of \$4,095,253 to be incurred by the end of the year. This was completed by that date. For the year ended December 31, 2009, the Company will have an unexpended cash-flow obligation of \$4,977,708, to be incurred by the end of the year.

The Company's ability to continue as a going concern is dependent upon it achieving and maintaining profitable results, receiving support from its lenders and attracting sufficient resources to explore and develop oil and natural gas properties. There is no certainty that management will be able to resolve these matters.

Nordic settles sales receivables and trade payables in accordance with normal industry standards while maintaining working capital liquidity by drawing from and repaying its bank overdraft facility as needed. The Company expects to be able to fund its 2009 capital expenditure program using operating cash flow and equity funds raised in 2008, along with the potential for additional financings in 2009. The Company utilizes both equity and Flow-Through issues from time to time to finance its capital program.

During the first and second quarters of the year, the Company had three successful closings of a financing that resulted in the issuance of 5,880,267 Flow-Through Units at a price of \$0.425 per unit for gross proceeds of \$2,499,113, plus another 606,750 non-Flow-Through Units at a price of \$0.40 per unit for gross proceeds of \$242,700. In conjunction with this share issuance, 2,940,133 warrants were issued, along with 480,512 agent warrants.

During the second quarter of 2008, the Company had a successful closing of a financing that resulted in the issuance of 4,166,667 Flow-Through Units at a price of \$0.60 per unit for gross

proceeds of \$2.5 million. Each Unit consisted of one Class A common share of the Company issued as a "flow-through share" within the meaning of the Income Tax Act (Canada) and one half of one Class A common share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder thereof to purchase one non flow-through regular Class A common share of the Company at a price of \$0.85 for a period of two years from the date of issuance.

No financings were undertaken during the last six months of 2008.

In conjunction with share issuance during the year ended December 31, 2008, a total of 5,326,842 warrants were issued, along with 813,845 agent warrants. The fair value of the warrants estimated using the Black-Scholes option pricing model with the following assumption:

	<u>2008</u>	<u>2007</u>
• Risk-free interest rate	3.10% - 3.27%	3.95% - 4.34%
• Expected life (years)	2	2
• Expected volatility	91 – 100%	34%
• Expected dividend yield	0%	0%

Financial Instruments

As discussed in the Significant Accounting Policies, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price, credit and interest rate risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not engage in hedging programs.

A) Commodity Price Risk

The Company will be subject to price risk for the delivery of natural gas and crude oil. The Company may manage and minimize the risk by entering into various joint operating agreements. As at December 31, 2008, the Company has not entered into any commodity contracts.

B) Credit Risk

A significant portion of the Company's cash is currently held with the same financial institution and, as such, the Company is exposed to concentration of credit risk. As at December 31, 2008, substantially all of the Company's trade accounts receivable are from working interest partners and joint operating partners in the oil and gas industry and are subject to all the risks associated with the industry.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements.

Oil and Gas Interest and Depletion

The Company follows the full cost method of accounting for all oil and gas properties whereby all costs relating to acquisition, exploration and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, drilling and other costs related to exploration and development activities. Proceeds from the disposal of oil and gas properties are applied against the capitalized costs of the related property.

The Company annually applies an impairment test (ceiling test) to capitalized costs, net of accumulated depletion and depreciation, to ensure they do not exceed the estimated undiscounted value of future net revenues from proven oil and gas reserves, determined by independent engineers, based on third-party quoted forward prices adjusted for transportation and quality, less

estimated operating and abandonment costs. Should it be determined that impairment has occurred, the amount of the impairment is measured and recorded as the amount by which the carrying amount of the property and equipment exceeds the fair value of proved and probable reserves plus the cost net of impairment of unproved properties. Fair value is determined based on the present value of future cash flows, after deducting abandonment and site restoration costs, discounted at a risk free interest rate, adjusted for prevailing market conditions. Any reduction of value, as a result of the impairment test (ceiling test), will be included in depletion, amortization and accretion.

Related Party Transactions

The Company has a joint operating agreement with Desoto Resources Limited whereby it has an 85% interest in certain assets including crown leases, gas line, oil and gas leases, and certain property and equipment. The costs for the three wells drilled under the joint operating agreement will be incurred 100% by the Company. As at December 31, 2008, the three wells representing a cost of \$1,449,721 have been drilled. The Company, directors and officers have an interest in Desoto Resources Limited.

The Company has a joint operating agreement with Western Warner Oils Ltd. whereby it has an 80% interest in certain assets including crown leases, gas lines, oil and gas leases, and certain property and equipment. The costs for the first five wells drilled in the joint operating agreement will be incurred 100% by the Company. As at December 31, 2008 the five wells representing a cost of \$3,408,279 have been drilled. The Company, directors and officers have an interest in Western Warner Oils Ltd.

As described above, substantially all of the Company's activities are undertaken jointly with related parties by joint operating agreements. The Company has a services agreement established with Nordic Management Ltd. for various services. As at year-end, Nordic Management Ltd. received \$12,500 per month for management services, \$7,833 per month for accounting services, \$2,500 per month for landman services, and \$5,000 per month for investor relations services. Effective January 1, 2009, the fee for management services was increased to \$13,333 per month, the fee for landman services changed to \$1,875 per month, and the fee for investor relations services changed to \$7,500 per month. These transactions are in the normal course of operations and are measured at the exchange amount (the amount of consideration established and agreed to by the related parties).

The contract expires November 14, 2012. Certain of the Company's directors and officers control Nordic Management Ltd.

At the end of the year, the amounts due from (to) related parties are as follows:

	<u>2008</u>	<u>2007</u>
Amounts included in accounts receivable	\$ 42,176	\$ 6,210
Amounts included in accounts payable and accrued liabilities	\$ 152,332	\$ -

The balances included in accounts receivable and accounts payable and accrued liabilities are non-interest bearing, payable on demand and have arisen from the sales of product and provision of services referred to above.

During the year, the Company issued on a private placement basis, 10,653,684 units of the Company at prices ranging from \$0.40 to \$0.60 per share for gross proceeds of \$5,241,813.

Included in the private placement, was 2,000 units for gross proceeds of \$800 issued to directors and officers of the Company.

During the year, the Company purchased equipment in the amount \$16,500 (2007 - \$nil) from a director of the Company.

On February 1, 2008, the Company acquired an 85% interest in a compressor station in Joffre, Alberta owned by Desoto Resources Limited, a related party. The purchase price was \$355,233 and was made at the exchange amount (the amount of consideration established and agreed to by the related parties). Furthermore, the Company also anticipates additional expenditures of up to \$200,000 at the compressor station. In conjunction with this acquisition, Desoto, which is the operator in the area, signed a contract with Atco Pipelines (“Atco”), to transport the Company’s gas. In conjunction with this transport agreement, Atco will also build a new metering station, approximately 3 kilometers south of the Company’s property.

The station will be paid for jointly by Atco, the Company and Desoto Resources Limited with an expected cost of completion of \$307,400. Atco will be paying \$224,785, or 73.1% of the total cost, with Nordic and Desoto sharing the remaining cost of \$82,615.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to management in a timely manner and that information required to be disclosed by the Company is reported within time periods prescribed by applicable securities legislation. Management has evaluated the effectiveness of the Company’s disclosure controls and procedures, as at the date of this MD&A, and as a result of that review, the Company’s President and its Treasurer believe them to be effective in providing such reasonable assurance, as per Multilateral Instrument 52-109 Certification of Disclosure.

Equity Instruments

The authorized capital of the Company is an unlimited number of Class A common shares and an unlimited number of convertible Preferred Shares. The issued capital is shown in the table on the following page:

	Year ended December 31, 2008		Year ended December 31, 2007	
	No. of shares	Amount	No of shares	Amount
Common shares		\$		\$
Balance, beginning of year	34,723,276	6,306,336	15,993,874	2,691,778
Issued in consideration for oil and natural gas properties (Note 9 (c))			1,500,000	247,500
Issued as flow-through units (Note 9 (d))	10,046,934	3,651,010	16,718,464	3,626,640
Issued as non-flow-through units (Note 9 (d))	606,750	151,712	600,000	99,803
Stock options exercised	287,500	211,325		
Share issue costs (net of future taxes in the amount of \$152,114 (2007 - \$110,416))		(573,661)		(340,676)
Tax effect of flow-through shares		(1,352,727)		(39,186)
Warrants exercised	909,666	479,408		
Shares cancelled (Note 9 (e))			(169,062)	
Conversion of debentures	1,566,000	404,360	80,000	20,477
Balance, end of year	48,140,126	\$ 9,277,763	34,723,276	\$6,306,336
	No. of warrants	Amount	No. of warrants	Amount
Warrants		\$		\$
Balance, beginning of year	10,026,843	855,188	2,249,355	289,052
Issued as flow-through units (Note 9 (d))	5,023,467	1,348,104	8,359,233	716,453
Issued as non-flow-through units (Note 9 (d))	303,375	90,988	300,000	1,894
Issued as agent warrants (Note 9 (d))	813,845	237,431	1,164,277	107,329
Warrants exercised	(909,666)	(140,241)		
Warrants expired	(160,001)	(23,223)	(2,046,022)	(259,540)
Balance, end of year	15,097,863	\$ 2,368,247	10,026,843	\$ 885,188
Total equity instruments		\$ 11,646,010		\$7,161,524

In accordance with the terms of the offerings and certain provisions of the Income Tax Act (Canada), the Company will renounce for income tax purposes, exploration expenditures of \$4,977,708 to subscribers of the flow through common shares in the current year private placement, for which the Company will have to incur eligible expenditures by December 31, 2009.

Stock Option Plan

The Company has established a stock option plan for its directors, officers, key employees, agents, and consultants. The total number of authorized and un-issued common shares allocated to, and made available to, such participants under the plan, shall not exceed 10% of the issued and outstanding Class A Common Shares at the time of the granting of the option

The key provisions of the Plan are as follows:

1. On the recommendation of the Directors, options may be granted to Directors, Officers, Employees, Consultants and other key personnel of the Corporation and its subsidiaries. The Plan reserves for the issue of options, a rolling maximum of 10% of the issued shares of the Corporation at the time of a stock option grant.

2. Not more than 5% of the Common Shares outstanding at the time of the grant may be reserved for issuance to any one individual.
3. The minimum exercise price of an option cannot be less than the fair market value of the Common Shares at the time the Option is granted, less any discount permitted by the Policies of the Exchange.
4. Options may have a maximum exercise precise period of five years and the Directors may establish vesting provisions.
5. Options are non-assignable and non-transferable.

In addition, the Plan is subject to all the provisions of the TSX Venture Exchange Policy 4.4. A copy of the Corporation's Stock Option Plan is available upon request from the Corporation.

At the beginning of the year, there were 3,080,000 options outstanding. At the closing of the year and the date of this balance sheet – December 31, 2008 – there were 3,922,500 stock options outstanding as per the following table.

Issued and Outstanding		Option Price	Expiry Date
150,000		\$ 0.40	2/12/2009
180,000		\$ 0.45	1/31/2010
280,000		\$ 0.40	1/22/2011
115,000		\$ 0.25	12/13/2011
1,495,000		\$ 0.60	12/30/2012
657,500		\$ 0.32	1/24/2013
<u>1,045,000</u>		\$ 0.20	8/21/2013
3,922,500			

During the year under review, the following activities took place with regard to the Company's stock options:

- In January, 525,000 stock options at a price of \$0.40 expired without any having been exercised
- On January 25, the granting of 900,000 stock options, at a price of \$0.32 was approved by the Board of Directors to various officers, directors and consultants of the Company. These options will run for a period a five years from the date of issuance
- In August 2008, the Board approved the granting of 1,120,000 stock options to various officers, directors and consultants of the Company. The options were priced at \$0.20 per share and run for a period of five years from today's date

Subsequent to year end, the following events occurred with relation to the Company's stock options:

- In February 150,000 stock options expired at a price of \$0.40
- In March, the Board approved the granting of 1,110,000 stock options to directors, officers and various consultants and employees at an exercise price of \$0.10 per share, for a period of five years, expiring on March 29, 2014.

Convertible Debentures

On November 30, 2006, the company issued convertible debentures in the amount of \$766,000 maturing on November 30, 2008 and bearing interest at an annual rate of 8%, payable semi-annually on each of the six and twelve month anniversaries of the initial closing date. The debenture is collateralized by all the present and future property and assets of the company. The debentures are convertible, at the option of the holder at any time, into Class A common shares of the Company at a conversion price of \$0.25. The maximum aggregate principal amount of convertibles debentures authorized under the Company's Trust Indenture is \$1,000,000.

During the year under review, \$391,500 of convertible debentures were converted into 1,566,000 Class A Common Shares.

At the end of the year, there were convertible debentures outstanding in the amount of \$354,500. Subsequent to the end of the year, on January 29, 2009, the Company paid the balance owing on the convertible debentures, which matured on November 30, 2008 of \$354,500, plus interest of \$14,180 for the period May 30, 2008 to November 29, 2008, plus additional interest of \$4,739 for the period November 30, 2008 to January 29, 2009, plus interest (8%) totaling \$252.95, for a total of \$373,672.57

Highlights of Operations for the Year Ended December 31, 2008

JANUARY

- Company selects two initial well locations to commence its drilling program in Preeceville, Saskatchewan, where it previously announced the discovery of numerous oil seeps.

FEBRUARY

- Company acquires an 85% interest in a compressor station in Joffre, Alberta, Canada, owned by Desoto Resources Limited, a related company. In conjunction with this, Desoto, which is the operator in the area, has signed a contract with Atco Pipelines to transport the Company's gas. This will result in a significant reduction in the costs of the Company's natural gas production in the region.
- Both an Environmental Report and Land Surveys for surface leases are completed in Preeceville, Saskatchewan on the land where the Company will be drilling its first two exploration wells.
- Company announces the first closing of its previously announced private placement offering of flow-through units. 2,416,094 flow-through units are issued at a price of \$0.425 per Unit for gross proceeds of \$1,026,840 to various subscribers. Each Unit consisted of one Class A common share of the Corporation issued as a "flow-through share" within the meaning of the *Income Tax Act* (Canada) and one half of one Class A common share purchase warrant. Each whole Warrant entitles the holder thereof to purchase one regular Class A common share of the Corporation at a price of \$0.65 for a period of two years from the date of issuance.

MARCH

- Company acquires four well bores located on leases on its lands in Lloydminster, Alberta. The well bores were about to be abandoned as the vendor had lost the mineral rights to the properties.

- Company announces subsequent closings of its previously announced private placement offering of flow-through units, by issuing 2,131,055 flow-through units at \$0.425 for gross proceeds of \$905,698 to various subscribers, and 340,000 non flow-through units at a price of \$0.40 per Unit for gross proceeds of \$136,000 to various subscribers, and by issuing a further 1,333,118 flow-through units at a price of \$0.425 per Flow-Through Unit for gross proceeds of \$566,575.15 to various subscribers, plus 266,750 non flow-through units at a price of \$0.40 per Unit for gross proceeds of \$106,700, also to various subscribers.

APRIL

- Company receives its second well license regarding its upcoming drilling program at Preeceville, Saskatchewan

MAY

- Company receives approval from the Saskatchewan Ministry of Environment on its Environmental Report submitted earlier this year with respect to Nordic's proposed drilling program at Preeceville, Saskatchewan, Canada.
- Drilling of two wells in Preeceville commences

JUNE

- The first well at Preeceville had to be abandoned due to the intersection of a fault line. As a result, the well deviated and the drilling tools became lodged in the hole and could not be removed.
- Drilling of the Company's second well at Preeceville is completed to the basement and is subsequently perforated and tested. Results indicated that the well would not be commercially productive.
- Three new heavy oil wells are licensed in Lloydminster and are subsequently drilled in July.
- The Company finalizes a brokered private placement financing consisting of 4,166,667 Units at a price of \$0.60 per Unit for gross proceeds to the Company of \$2.5 million. Each Unit consisted of one Class A common share of the Company issued as a "flow-through share" within the meaning of the Income Tax Act (Canada) and one half of one Class A common share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder thereof to purchase one non flow-through regular Class A common share of the Company at a price of \$0.85 for a period of two years from the date of issuance.

JULY

- Company begins drilling the first of its new oil wells in Lloydminster.

AUGUST

- First shipment of heavy oil from Lloydminster is completed through two new wells placed on production.

SEPTEMBER

- Four additional well bores placed on production in Lloydminster, bringing to 12 the number of overall wells the Company has on production.

OCTOBER

- Company receives a license to drill a new Viking oil well in search of sweet, light crude in Joffre. While gas is more extensive in the region, oil is also prevalent in the area. Drilling is expected to commence in the first quarter of 2009.

DECEMBER

- Company begins making preparations to commence shooting 3-D seismic at Preeceville

Operational Outlook for 2009

The Company has targeted a Capital Expenditure budget of \$6.0 million for 2009 as follows:

PREECEVILLE:

- | | |
|--------------|-------------|
| • Seismic | \$ 500,000 |
| • 1 new well | \$1,000,000 |

LLOYDMINSTER

- | | |
|-------------------------|------------|
| • 2 existing well sites | \$ 500,000 |
|-------------------------|------------|

JOFFRE

- | | |
|----------------------|------------|
| • Compressor Station | \$ 200,000 |
|----------------------|------------|

EXPLORATION DRILLING (TBA)	\$3,800,000
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Business Risks & Uncertainties

The Company operates on a going concern basis that contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company's ability to continue as a going concern is dependent upon it achieving and maintaining profitable results, receiving support from its lenders and attracting sufficient resources to explore and develop oil and natural gas properties. There is no certainty that management will be able to resolve these matters.

The business of exploring, developing, acquiring and producing Oil and Natural Gas reserves is subject to a variety of operational, financial and regulatory risks, including:

- Operational Risks – Oil and Natural Gas operations are subject to all the risks and hazards typically associated with such operations, including fire, explosions, blowouts, formation damages and oil spills, all or any of which could have a negative impact on oil and gas wells, production facilities, related property, the environment, or in personal injury. Operational risks also include finding and developing Natural Gas reserves on an economically viable basis, reservoir production performance, marketing, and assessing contract services on a cost-effective basis.

- Financial Risks – Financial risks including commodity and market fluctuations, interest rates and any rates of applicable currency exchange. Nordic Oil and Gas’s results of operations and financial considerations are dependent on the prices received for oil and Natural Gas production from reserves in which it has a working interest. Oil and Natural Gas prices have fluctuated widely in the past, with oil in particular subject to national and international supply and demand ratios, along with political development and instability in the Middle East. In addition, the marketability of the Company’s products also will depend upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial legislation on such production, and the general economic conditions of the marketplace.
- Price Volatility of Publicly Traded Securities – In recent years, the Securities Markets in Canada and the United States have experienced a high level of price and volume volatility, with the market price of securities of many companies undergoing wide fluctuations in price, which have not necessarily been related to operating performance, underlying asset value or prospects.
- Development of Additional Reserves – The future success of Nordic Oil and Gas may also depend on the Company’s ability to find or acquire additional oil and gas reserves that are economically recoverable.
- Competition – The Oil and Natural Gas industries are extremely competitive, and, as such, Nordic Oil and Gas will continue to seek out potential joint venture partners, capital, and undeveloped land with a variety of other companies.
- Regulatory Risks – Regulatory risks include environmental regulation, royalties and taxation, all of which are beyond the control of the Company.

Corporate Information

Stock Exchange	TSX Venture Exchange
Trading Symbol	NOG
Officers	Donald P. Benson, President & CEO; Chairman of the Board Keith Peterson, Treasurer & Director Don Bain, Corporate Secretary
Independent Directors	Michael Mann Barry Palka Brahm Silverstone
Auditors	Meyers Norris Penny LLP, Winnipeg, Manitoba
Transfer Agent	CIBC Mellon Trust Company, Calgary, Alberta
Head Office	4727 Roblin Boulevard Winnipeg, Manitoba R3R 0G2 Tel. 204-956-5042 Fax: 204-897-7154
Alberta Office	213, 110 – 11 th Avenue SW Calgary, Alberta T2R 0B8 Tel. 403-264-7891 Fax: 403-264-7773
Accounting Office	1856 Portage Avenue Winnipeg, MB R3J 0G9 Tel. 204-832-7717 Fax. 204-897-8414
Web site	www.nordicoilandgas.com