Nordic Oil and Gas Ltd.

Financial Statements

For the years ended December 31, 2007 and 2006

Auditors' Report

To the Shareholders of Nordic Oil and Gas Ltd.:

We have audited the balance sheet of Nordic Oil and Gas Ltd. as at December 31, 2007 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2006 and for the year then ended were audited by another firm of Chartered Accountants, who expressed an opinion without reservation on those statements in their report dated April 27, 2007.

Meyers Norris Penny LLP

Winnipeg, Manitoba

April 22, 2008

Chartered Accountants

Nordic Oil and Gas Ltd.
Balance Sheets
As at December 31, 2007 and 2006

	2007 $	2006 $
Assets		
Current assets		
Cash and cash equivalents	**2,044,388**	433,423
Short-term investments (Note 3)	**204,191**	211,672
Accounts receivable (Note 9)	**920,669**	122,808
	3,169,248	767,903
Deferred costs (Note 2 and 6)	**-**	114,901
Property and equipment (Note 4)	**4,543,811**	3,426,676
	7,713,059	4,309,480
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	**247,416**	386,451
Convertible debentures (Note 6)	**665,937**	-
	913,353	386,451
Asset retirement obligation (Note 5)	**287,867**	218,961
Convertible debentures (Note 6)	**-**	716,374
Future income taxes (Note 14)	**232,249**	544,994
	1,433,469	1,866,780
Shareholders' Equity		
Equity instruments (Note 7)	**7,161,524**	2,980,830
Equity portion of convertible debenture (Note 6 and 7)	**41,965**	43,090
Contributed surplus (Note 8)	**1,631,847**	842,096
Deficit	**(2,555,746)**	(1,423,316)
	6,279,590	2,442,700
	7,713,059	4,309,480

Nature of operations and going concern (Note 1)
Commitments (Note 10)
Contingencies (Note 11)

Approved by the Directors:

Signed *"Donald Benson"* **Director** Signed *"Keith Peterson"* **Director**

	2007 **$**	2006 $
Revenues		
Oil and natural gas sales	**588,152**	667,136
Royalty expense	**(197,299)**	(162,073)
	390,853	505,063
Expenses		
Depletion, amortization and accretion (Note 4 and 5)	**259,886**	521,100
Operating costs	**258,913**	192,926
General and administrative (Note 9)	**576,742**	408,601
Stock based compensation (Note 8)	**530,211**	179,710
	1,625,752	1,302,337
Loss before the following	**(1,234,899)**	(797,274)
Interest and financing charges	**(143,490)**	(15,996)
Interest income	**7,823**	12,714
	(135,667)	(3,282)
Loss before income taxes	**(1,370,566)**	(800,556)
Future tax recovery (Note 14)	**241,515**	293,462
Loss for the year	**(1,129,051)**	(507,094)
Deficit, beginning of year	**(1,423,316)**	(916,222)
Change in accounting policies (Note 2)	**(3,379)**	-
Deficit, end of year	**(2,555,746)**	(1,423,316)
Basic and diluted loss per share (Note 7(j))	**(0.06)**	(0.03)

	2007 $	2006 $
Cash flows from (used in) operating activities		
Loss for the year	**(1,129,051)**	(507,094)
Items not involving cash:		
Depletion, amortization and accretion	**259,886**	521,100
Interest and financing charges	**80,437**	2,158
Stock based compensation	**530,211**	179,710
Future tax recovery	**(241,515)**	(293,462)
Changes in non-cash working capital items	**(82,365)**	(402,811)
	(582,397)	(500,399)
Cash flows provided by (used in) investing activities		
Property and equipment acquisitions	**(1,060,604)**	(1,071,608)
Sale of short term investments	**15,304**	1,193,295
	(1,045,300)	121,687
Cash flows provided by financing activities		
Issue of share capital – net of costs	**3,238,662**	117,095
Convertible debenture advance	**-**	642,406
	3,238,662	759,501
Increase in cash during the year	**1,610,965**	380,789
Cash and cash equivalents, beginning of year	**433,423**	52,634
Cash and cash equivalents, end of year	**2,044,388**	433,423
Supplemental cash flow information		
Interest paid	**63,053**	13,839

1. Nature of Operations and Going Concern

Nordic Oil and Gas Ltd. ("the Company") is a Canadian based oil and gas exploration and development company incorporated under the laws of Manitoba whose oil and gas properties are located in the provinces of Alberta and Saskatchewan.

These financial statements have been 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, 2007 the Company had an operating loss before income taxes of $1,370,566, and used $582,397 of cash in its 2007 operations. As described in Note 10(a), the Company has an unexpended flow through obligation of $4,095,253 to be incurred by December 31, 2008. The Company's ability to continue as a going concern is dependent upon the Company 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. These financial statements do not reflect the adjustments that would be necessary if the going concern assumption was not appropriate and these adjustments may be material.

2. Significant Accounting Policies

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

Property and equipment

The Company follows the Canadian Institute of Chartered Accountants' Accounting Guideline – 16 for the full cost method of accounting for oil and gas properties whereby all costs relating to the 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 provided such sale would not alter the rate of depletion by more than 20% in which case it would be charged or credited to operations of the current year.

The Company annually applies an impairment test (ceiling test) to capitalized costs, net of accumulated depletion and amortization, 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.

Computers are recorded at cost and are amortized at a rate intended to amortize the cost of the computers over their estimated useful lives.

2. Significant Accounting Policies *(continued from previous page)*

Depletion and amortization

Upon commencement of production, or abandonment of property, capitalized costs are depleted using the unit-of-production method, based on estimated gross proven oil and gas reserves determined by independent engineers. Oil and gas reserves are converted to a common unit of measure based on energy content of six thousand cubic feet of gas to one barrel of oil. Costs of undeveloped properties are not included in the costs subject to depletion. These costs are assessed periodically for impairment.

Computers are amortized on a 30% declining balance basis.

Revenue recognition

Revenue from the sales of petroleum and natural gas are recognized when the risk and rewards of ownership pass to the purchaser, including delivery of the product, the selling price being fixed or determinable and collectibility being reasonably assured. Settlement adjustments, if any, are reflected in revenue when the amounts are known. Transportation costs related to the delivery of the product are recorded as an operating expense on the date the product is transported.

Asset retirement obligation

The Company recognizes the estimated fair value of an Asset Retirement Obligation (“ARO”) in the period in which it is incurred when a reasonable estimate of fair value can be made. The fair value of the estimated ARO is recorded as a liability with a corresponding increase in the carrying amount of the related asset. ARO’s are initially measured at fair value and subsequently adjusted for the accretion or discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proven reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO with an offsetting amount to the related property. Actual costs incurred are charged against the ARO to the extent of the recorded liability. Any difference between the actual costs incurred and the recorded liability is recognized as a gain or loss in the period in which the costs are incurred.

Joint Activities

A substantial portion of the Company’s activities are conducted jointly with related parties through joint operating agreements. These financial statements reflect only the Company’s proportionate interest in such activities.

Per share amounts

Basic loss per common share is computed by dividing income applicable to common shareholders by the weighted average number of common shares outstanding for the period.

The Company uses the treasury stock method to determine the dilutive effect of stock options and the other dilutive instruments. This method assumes that proceeds received from the exercise of in-the-money stock options and other instruments, are used to repurchase common shares at the average market price of the period. Basic net earnings (loss) per common share are determined by dividing net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share are computed by giving effect to the potential dilution that would occur if stock options and other dilutive instruments were exercised.

2. Significant Accounting Policies *(continued from previous page)*

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are based on the differences between assets and liabilities reported for accounting purposes from those reported for income tax purposes. The rates used in the future income tax calculation are enacted or substantively enacted at the time of calculation. The effect of a change in rates on future tax assets and liabilities is recognized in income in the period in which the change occurs. Future income tax assets are calculated and if realization is not deemed more likely than not, a valuation allowance is provided.

Stock-based compensation and other stock-based payments

Under the Company's stock option plan, options to purchase common shares may be granted to directors, officers, employees and consultants at current market prices. Stock-based compensation expense is recorded in the statement of operations and deficit for all options with a corresponding increase recorded in contributed surplus. The expense is based on the estimated fair value at the time of the grant and recognized over the vesting period of employee options and over the period that would have been recognized had the Company paid cash for consultant options. Upon exercise of the options, the amount of the consideration paid together with the amount previously recorded in contributed surplus is recorded as an increase in share capital.

Measurement uncertainty

Amounts recorded for depletion, amortization and accretion and amounts used for the ceiling test calculation and impairment of unproven properties are based on estimates of crude oil and natural gas reserves and future costs required to develop and reclaim and abandon those reserves and explore unproven properties.

The financial statements include accruals based on the terms of existing joint operating agreements. Due to varying interpretations of the definition of terms in these agreements, the accruals made by management in this regard may be significantly different from those determined by the Company's joint operating partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

The Black Scholes option valuation model was developed for use in estimating the fair value of traded options and warrants which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

The Company has estimated the debt and equity components of its convertible debenture based on its best estimate of the rate for comparable instruments at the time of issue.

The capital expenditures classification made by the Company with respect to the renouncement of flow-through shares is based on estimates from geologic information obtained and the classification of the expenditures may be challenged by the taxation authorities and in this regard the assessments may be different from that of management.

The operations of the Company are complex, and related tax interpretations, regulations and legislation affecting the Company are continually changing.

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

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow through share arrangements are renounced to investors in accordance with income tax legislation. The Company provides for the future effect on income taxes related to flow-through shares as a reduction of share capital and an increase in future income taxes at the date of renunciation.

2. Significant Accounting Policies *(continued from previous page)*

Short-term Investments

Short-term investments are comprised of guaranteed investment certificates and term deposits with initial terms to maturity of over ninety days but less than one year.

Cash and cash equivalents

Short-term investments with maturities of ninety days or less are considered to be cash equivalents and are recorded at cost, which approximates market value.

Debt instrument

On issue of convertible debt instruments, the cost of the liability portion is initially calculated using the market interest rate for an equivalent non-convertible instrument. The remainder of the net proceeds is allocated to the equity conversion option, which is reported in equity. The liability element is subsequently reported at amortized cost. Amortization of the debt discount is recognized in the statement of operations over the duration of the debt instrument. The value of the equity conversion option is not changed in future periods.

Costs incurred related to the convertible debt instruments have been allocated to the debt and equity component on a pro rata basis.

Financial instruments and 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 have not been restated.

Section 1530 established standards for reporting and presenting comprehensive income. Comprehensive income comprises net income and other comprehensive income ("OCI") and includes all changes in equity (net assets) of the Company during the year except those resulting from investment by and distribution to owners. On adoption of the new standards, the Company determined that there was no other comprehensive income required to be recorded. As a result, comprehensive income consists solely of net income.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under Section 3855, financial instruments must be classified as held for trading ("HFT"), held to maturity ("HTM"), loans and receivables, available for sale ("AFS") financial assets or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value, except for those classified as loans and receivables, HTM investments and other financial liabilities, which are measured at amortized cost using the effective interest rate method. Changes in fair value of HFT financial instruments are recorded in net income. Changes in fair value of AFS financial assets are recorded in other OCI until the investment is sold or impaired; at which time, the realized gain or loss will be recorded in net income.

Section 3861 establishes standards for the presentation of financial instruments and non – financial derivatives and identifies the related information that should be disclosed.

Section 3865 describes when and how hedge accounting can be applied. The Company does not have any hedging relationships.

2. Significant Accounting Policies *(continued from previous page)*

Upon adoption of these new standards, the Company has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Short-term investments	Held-to-maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accruals	Other financial liabilities	Amortized cost
Convertible debentures (debt component)	Other financial liabilities	Amortized cost

All derivative instruments, including embedded derivatives, are recorded in the balance sheet and statement of operations and deficit at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in operations.

The valuation techniques used to determine the fair value of financial instruments have remained substantially the same despite the adoption of these new accounting standards.

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to loans and receivables and other financial liabilities are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method.

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

3. Short-Term Investments

		2007		2006
Short term investments	$	204,191	$	211,672

Short-term investments are comprised of guaranteed investment certificates from a chartered bank with effective interest rates of 3.75% (2006 – 3.30%) maturing June 8, 2008. Interest is received on maturity.

The Company has pledged short term investments with its bank as collateral for a $200,000 overdraft facility. This facility is payable on demand and bears interest at the bank's overdraft borrowing rate of bank prime plus 0.5%. The credit facility was not drawn upon on December 31, 2007.

4. Property and Equipment

December 31, 2007		Cost		Accumulated depletion and amortization		Net Book Value
Petroleum and natural gas properties and equipment	$	6,776,423	$	2,246,945	$	4,529,478
Computer equipment		21,178		6,845		14,333
	$	6,797,601	$	2,253,790	$	4,543,811

4. Property and Equipment *(continued from previous page)*

December 31, 2006	Cost	Accumulated depletion and amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 5,419,726	$ 2,007,057	$ 3,412,669
Computer equipment	18,369	4,362	14,007
	$ 5,438,095	$ 2,011,419	$ 3,426,676

Depletion of petroleum and natural gas properties is determined using the unit of production method based upon proved reserves. No administrative expenses have been capitalized to property and equipment in 2007 and 2006. As at December 31, 2007, costs amounting to $1,802,852 (2006 - $1,227,556) that were incurred on unproven properties have been excluded from costs subject to depletion. Future development costs associated with proved reserves of $807,000 (2006 - $908,700) have been included in costs subject to depletion.

The Company applied the ceiling test to its capitalized assets at December 31, 2007 and 2006 and determined that there was no impairment of costs requiring a write-down.

The following table outlines the benchmark prices used in the impairment test at December 31, 2007:

Year	AECO Natural Gas CDN$/mmbtu
2008	6.75
2009	7.50
2010	7.75
2011	7.75
2012	7.75
Thereafter	+ 2%/year

All barrels of oil equivalent conversions are derived by converting natural gas to crude oil in the ratio of six thousand cubic feet of natural gas to one barrel of crude oil.

5. Asset Retirement Obligation

The following table presents the continuity of the beginning and ending obligation associated with the retirement of oil and gas properties.

	December 31, 2007	December 31, 2006
Asset retirement obligation, beginning of year	$ 218,961	$ 118,298
Liabilities incurred	51,401	91,198
Accretion expense	17,505	9,465
Asset retirement obligation, end of year	$ 287,867	$ 218,961

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $500,937 (2006 - $359,109). The obligation was calculated using a credit-adjusted risk free discount rate of 8% and an inflation rate of 2%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2008 and 2024.

6. 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 anniversary of the initial date of closing. 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 the conversion price of $0.25. The maximum aggregate principal amount of convertible debentures authorized under the Company's Trust Indenture is $1,000,000.

The debenture is a financial instrument that contains both a liability and equity component. The liability component and the equity component were presented separately, as determined at initial recognition. The Company has valued the equity component of this debenture using the residual value of equity component method, whereby the liability component is valued first using management's best estimate of the current market rate for comparable instruments, at the time of issuance. The difference between the proceeds of the issued convertible debentures and the fair value of the liability is assigned to the equity component. At the time, the resulting liability and equity values determined using this method based on an estimated 12% interest rate were as follows:

Total proceeds of convertible debenture	$	766,000
Value of liability component		(714,217)
		51,783
Equity component issue costs		(8,693)
Value of equity component	$	43,090

Total accretion expense related to the liability component of the convertible debenture is $24,377 (2006 - $2,157). The carrying value of the debenture will be accreted up to its face value over the term to maturity. Amortization of the deferred debenture costs amounted to $56,060 (2006 - $4,996) leaving an unamortized balance of $55,462 (2006 - $114,901).

Due to the Company's adoption of the new financial instruments standards as described in Note 2, the deferred debenture costs are now netted against the carrying value of the convertible debenture and amortized over the expected life of the instrument using the effective interest rate method. This change in accounting policy decreased deferred costs by $114,901, decreased convertible debenture by $111,522 and increased the opening deficit by $3,379.

Balance, beginning of year	$	716,374
Change in accounting policy		(111,522)
		604,852
Conversion to Class A common shares		(19,352)
Accretion expense		24,377
Amortization of deferred costs		56,060
Balance, end of year	$	665,937

During the year $20,000 of convertible debentures were converted into 80,000 Class A common shares of the Company.

7. Equity Instruments

(a) Authorized

The authorized share capital of the Company is as follows:

an unlimited number of Class A common shares
an unlimited number of convertible preferred shares

(b) Issued

The issued share capital is as follows:

	Year ended December 31, 2007		Year ended December 31, 2006	
	Number of shares	Amount	Number of shares	Amount
Common shares				
Balance, beginning of year	15,993,874	$ 2,691,778	15,418,147	$ 3,114,766
Issued in consideration for oil and natural gas properties (Note 7 (c))	1,500,000	247,500	-	-
Issued as flow-through units (Note 7 (d))	16,718,464	3,626,640	406,665	92,488
Issued as non-flow-through units (Note 7 (d))	600,000	99,803	-	-
Issued from treasury (Note 7 (e))	-	-	169,062	31,276
Stock options exercised	-	-	-	-
Share issue costs (net of future taxes in the amount of $110,416 (2006 - $1,169)	-	(340,676)	-	(3,214)
Tax effect of flow-through shares	-	(39,186)	-	(472,262)
Warrant revaluation (Note 7 (l))	-	-		(40,000)
Amounts due for issued shares (Note 7 (e))	-	-		(31,276)
Shares cancelled (Note 7 (e))	(169,062)	-	-	-
Conversion of debentures	80,000	20,477	-	-
Balance, end of year	34,723,276	$ 6,306,336	15,993,874	$ 2,691,778

	Number of warrants	Amount	Number of warrants	Amount
Warrants				
Balance, beginning of year	2,249,355	$ 289,052	2,046,022	$ 219,540
Issued as flow-through units (Note 7 (d))	8,359,233	716,453	203,333	29,512
Issued as non-flow-through units (Note 7 (d))	300,000	1,894	-	-
Issued as agent warrants (Note 7 (d))	1,164,277	107,329	-	-
Warrant revaluation (Note 7 (l))	-	-	-	40,000
Warrants expired	(2,046,022)	(259,540)	-	-
Balance, end of year	10,026,843	$ 855,188	2,249,355	$ 289,052
Total equity instruments		$ 7,161,524		$ 2,980,830

7. Equity Instruments *(continued from previous page)*

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 $4,342,789 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, 2008.

(c) Shares issued in consideration for oil and natural gas properties

On September 14, 2007, the Company acquired certain oil and natural gas properties in an arm's length transaction at a cost of $447,500. 1,500,000 Class A common shares were issued at $0.165 per share for total share consideration of $247,500 with the remaining balance paid in cash.

(d) Private placements

During the year, the Company undertook the following private placements:

On August 3, 2007, the Company issued on a private placement basis, 1,000,000 units of the Company at $0.20 per share for the gross proceeds of $200,000. Each unit consists of one Class A flow through common share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at $0.30. The purchase warrants expire in August 2009.

On September 14, 2007, the Company issued on a private placement basis, 752,500 units of the Company at $0.20 per share for the gross proceeds of $150,500. Each unit consists of one Class A flow through common share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at $0.30. The purchase warrants expire in September 2009.

On October 1, 2007, the Company issued on a private placement basis, 600,000 units of the Company at $0.17 per share for the gross proceeds of $102,000. Each unit consists of one Class A common share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at $0.30. The purchase warrants expire in October 2009.

On October 24, 2007, the Company issued on a private placement basis, 1,375,000 units of the Company at $0.20 per share for the gross proceeds of $275,000. Each unit consists of one Class A flow through common share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at $0.30. The purchase warrants expire in October 2009.

On November 20, 2007, the Company issued on a private placement basis, 3,600,000 units of the Company at $0.20 per share for the gross proceeds of $720,000. Each unit consists of one Class A flow through common share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at $0.30. The purchase warrants expire in November 2009.

On December 20, 2007, the Company issued on a private placement basis, 5,476,299 units of the Company at $0.30 per share for the gross proceeds of $1,642,890. Each unit consists of one Class A flow through common share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at $0.40. The purchase warrants expire in December 2009.

On December 28, 2007, the Company issued on a private placement basis, 4,514,665 units of the Company at $0.30 per share for the gross proceeds of $1,354,400. Each unit consists of one Class A flow through common share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at $0.40. The purchase warrants expire in December 2009.

7. Equity Instruments *(continued from previous page)*

The fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following assumptions:

Year ended December 31	2007	2006
Risk free interest rate	3.95% - 4.34%	4%
Expected life (years)	2	2
Expected volatility	34%	145%
Expected dividend yield	0%	0%

The Company issued warrants to certain agents as part of the current year's private placements. These warrants entitle the holder to purchase one Class A common share of the Company at prices ranging from $0.30 to $0.40 per share. These warrants expire between August 2009 and December 2009.

(e) Issued from treasury

In 2006, the Company issued 169,062 Class A common shares to a company that certain of the directors and officers of the Company have an interest in. No cash was received for these shares and a receivable was recognized as a reduction of share capital of the fair value of the shares on the issue date. These shares were cancelled in 2007.

(f) Stock Options

The Company has a Stock Option Plan for the issuance of Class A common shares to employees, officers, directors and other key personnel based on the approval of the Board of Directors and regulatory authorities. The total number of authorized 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. Options vest at the determination of the Board of Directors at the time of granting and expire after five years. The Company's stock option plan allows them to grant options with an exercise price not less than the Discounted Market Price on the date of grant as defined by the TSX Venture Exchange Inc.

(g) As at December 31, 2007 the Company has the following stock options outstanding:

	Number of options	Option price range per share	Weighted average exercise price
Options outstanding, December 31, 2006	1,510,000	$0.25 – 0.45	$0.41
Granted [(1)]	1,570,000	$0.60	$0.60
Options outstanding, December 31, 2007	3,080,000	$0.40 – 0.60	$0.51

[(1)] Options granted during the year vested immediately.

7. **Equity Instruments** *(continued from previous page)*

The following table summarizes information about the stock options outstanding at December 31, 2007:

Options Outstanding	Option Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
650,000	$0.40	$0.40	0.13	650,000	$0.40
160,000	0.40	0.40	1.07	160,000	0.40
210,000	0.45	0.45	2.08	210,000	0.45
300,000	0.40	0.40	3.06	300,000	0.40
190,000	0.25	0.25	3.95	190,000	0.25
1,570,000	0.60	0.60	5.00	1,570,000	0.60
3,080,000	$0.51	$0.51	-	3,080,000	$0.51

As at December 31, 2006 the Company had the following stock options outstanding:

	Number of options	Option price range per share	Weighted average exercise price
Options outstanding, December 31, 2005	1,070,000	$0.40 – 0.45	$0.41
Granted [(1)]	540,000	$0.25 – 0.40	$0.35
Cancelled	(100,000)	$0.40 – 0.45	$0.43
Options outstanding, December 31, 2006	1,510,000	$0.25 – 0.45	$0.41

The following table summarizes information about the stock options outstanding at December 31, 2006:

Options Outstanding	Option Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price of Options Currently Exercisable
650,000	$0.40	$0.40	1.13	650,000	$0.40
160,000	0.40	0.40	2.07	160,000	0.40
210,000	0.45	0.45	3.08	210,000	0.45
300,000	0.40	0.40	4.06	300,000	0.40
190,000	0.25	0.25	4.95	190,000	0.25
1,510,000	$0.41	$0.41	-	1,510,000	$0.41

During the year, under the fair-value-based method, $530,211 (2006 - $179,710) in compensation expense was recorded in the statement of operations and deficit and credited to contributed surplus for options granted to directors, officers, employees and consultants.

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following assumptions:

Year ended December 31,	2007	2006
Risk free interest rate	3.8%	4%
Expected life (years)	5	5
Expected volatility	34%	142% - 170%
Expected dividend yield	0%	0%

7. Equity Instruments *(continued from previous page)*

(h) Escrow Shares

As of the year end there are 338,129 (2006 - 676,253) common shares held in escrow.

(i) Dividends

Under the terms of the convertible debenture agreement (Note 6) the Company will not make any capital distributions with respect to any shares, or redeem any other debentures of the Company at any time that the Company is in arrears in payment of any principal or interest on the debentures. At December 31, 2007 the Company was not in arrears regarding the payment of interest.

(j) Per share amounts

Per share calculations are based on the weighted average number of Class A common shares outstanding during the year of 19,094,704 (2006 - 15,480,296). For 2007 and 2006, diluted loss per share is consistent with basic loss per share as the effects of the debenture conversions and option exercises are anti-dilutive.

(k) Equity portion of convertible debenture

Balance, beginning of year	$	43,090
Conversion to Class A common shares		1,125
Balance, end of year	$	41,965

(l) Warrant Revaluation

At December 1, 2006, the Company extended the life of the warrants issued on December 31, 2005. The warrants were revalued using the Black Scholes option pricing model with the following assumptions: exercise price of $0.60; expected volatility 0.95; risk free rate of 4% and life of 1 year. This revaluation resulted in a $40,000 increase in the amount attributed to warrants and a corresponding decrease to share capital with no change in total equity instruments.

8. Contributed Surplus

		2007		2006
Balance, beginning of year	$	842,096	$	662,386
Stock based compensation (Note 7 (f))		530,211		179,710
Warrants expired		259,540		-
Balance, end of year	$	1,631,847	$	842,096

9. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following 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, 2007, the three wells 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, 2007 only two of the five wells have been drilled. The Company, directors and officers have an interest in Western Warner Oils Ltd.

9. Related Party Transactions *(continued from previous page)*

As described above, substantially all of the Company's activities are undertaken jointly with related parties by joint operating agreement.

The Company has a services agreement established with Nordic Management Ltd. for various services. Nordic Management Ltd. receives $10,000 per month for management services, $2,500 per month for accounting services and $4,000 per month for investor relations services. The contract expires November 14, 2012. Certain of the Company's directors and officers control Nordic Management Ltd. Effective March 1, 2008, the fee for management services was increased to $12,500 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).

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

		2007		2006
Amounts included in accounts receivable	$	6,210	$	-
Amounts included in accounts payable and accrued liabilities	$	-	$	209,949

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, 17,318,464 units of the Company at prices ranging from $0.17 to $0.30 per share for gross proceeds of $4,444,799. Included in the private placement, was 232,500 units for gross proceeds of $64,500 issued to directors and officers of the Company.

10. Commitments

In addition to commitments disclosed elsewhere in these financial statements, the Company has the following commitments:

(a) Pursuant to the flow-through Class A common shares issued, the Company is committed to spending $4,342,789 on qualified expenditures by December 31, 2008. As of December 31, 2007, the Company expended $247,537 of the qualified expenditures leaving a balance of $4,095,253 due by December 31, 2008.

(b) In the normal course of operations, the Company enters into contractual agreements to drill wells on third party lands.

11. Contingencies

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated future removal and site restoration costs. Any changes in these estimates will affect future operations. Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities.

The Company has been advised by its joint venture partner in Joffre, Desoto Resources Limited, that Desoto Resources Limited has filed a statement of claim against an independent oil and gas producer to preserve its right in petroleum and natural gas leases that the independent oil and gas producer has stated are terminated by virtue of the fact that the lands in question are not capable of production. The statement of claim seeks damages and asks the court to confirm the validity of the leases. The two and a half sections of leases in question includes one well currently awaiting tie-in and are reflected as proven reserves in the Company's reserves report completed by an independent engineering company. Desoto Resources Limited holds in trust an 85% portion of the interest in the leases on behalf of Nordic Oil and Gas Ltd. At this time, the likelihood of the claim is not determinable.

12. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price risk and credit risk. The Company manages its exposure to the extent practical.

(a) Commodity Price Risk

The Company will be subject to commodity 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 with subparticipants. As at December 31, 2007, the Company has not entered into any commodity contracts.

(b) Credit Risk

Substantially all of the Company's accounts receivable are from working interest partners in the oil and gas industry and, as such, the Company is exposed to all the risks associated with that industry. At December 31, 2007 substantially all of the Company's cash was held at one financial institution and, as such the Company is exposed to concentration of credit risk.

(c) Fair Value of Financial Instruments

The carrying values of current financial assets and liabilities including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, and convertible debentures, approximates their fair values due to the short-term nature of these instruments.

The fair value of the advances from related parties cannot be determined with sufficient reliability as these instruments are not traded in an organized financial market.

13. Indemnities and Guarantees

(a) In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, operating agreements, leasing agreements, asset use agreements, etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

(b) Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

14. Income Taxes

(a) Significant components of the future income tax liability at December 31, 2007 and 2006 include the following:

	2007	2006
Property and equipment and asset retirement obligations	$ (537,937)	$ (663,997)
Share issuance costs	104,418	53,959
Non-capital losses	201,270	65,044
	$ (232,249)	$ (544,994)

14. Income Taxes *(continued from previous page)*

(b) Income tax expense differs from that which would be expected from applying the statutory Canadian federal and provincial 2007 income tax rates of 32.12% (2006 – 34.48%) to loss before income taxes as follows:

	2007	2006
Loss before income taxes	$ (1,370,566)	$ (800,556)
Combined federal and provincial tax rate	32.12%	34.48%
Expected income tax (recovery)	$ (440,226)	$ (276,116)
Increase (decrease) resulting from:		
Resource allowance	-	6,772
Tax rate change	(7,886)	(93,665)
Non-deductible expenses	210,090	61,964
Other	(3,493)	7,583
Provision for income taxes (recovery)	$ (241,515)	$ (293,462)

(c) At the end of the year, subject to confirmation by income tax authorities, the Company has approximately the following undeducted tax pools:

	2007	2006
Cumulative Canadian oil and gas property expenses	$ 720,669	$ 262,249
Cumulative Canadian development expenses	779,839	182,248
Cumulative Canadian exploration expenses	127,284	-
Undepreciated capital cost	476,392	473,582
Non-capital loss carryforwards	805,082	217,080
Undeducted share issue costs carried forward	473,134	309,659

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

15. Future changes to significant accounting policies

CICA Handbook Sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation," are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These Sections establish standards for presentation of financial instruments and non-financial derivatives and complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Handbook Section 3855 "Financial Instruments – Recognition and Measurement." The sections deal with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and liabilities are offset.

CICA Handbook Section 1535 "Capital Disclosures," is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The section requires the Company to disclose information that enables users of its financial statements to evaluate the Company's objectives, policies and processes for managing capital.

Management is currently considering the effect on the financial statements of the new standards.

16. Subsequent Event

(a) Stock Options

In January 2008, 650,000 stock options previously issued at $0.40 expired. On January 25, 2008, the Company granted 900,000 stock options at $0.32 to various officers, directors and consultants of the Company. These options vest immediately and expire five years from the date of grant.

(b) Compressor Plant Acquisition

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 $350,000 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 a major pipeline company ("the transporter"), to transport the Company's gas. In conjunction with this transport agreement, the transporter will also build a new metering station, approximately 3 kilometers south of the Company's property. The station will be paid for jointly by the transporter, the Company and Desoto Resources Limited with an expected cost of completion of $307,400. The transporter will be paying $224,785, or 73.1% of the total cost, with Nordic and Desoto sharing the remaining cost of $82,615, 85% and 15% respectively. In addition a letter of credit was provided to the transporter in the amount of $152,938 to guarantee the Company's performance.

(c) Private Placements

On February 22, 2008, the Company completed the first closing of a previously announced private placement offering of units (the "Offering"), issuing 2,416,094 of flow-through units ("Flow-Through Units") 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) (a "Flow-Through Share") and one half of one Class A common share purchase warrant (a "Flow-Through Unit Warrant"). Each whole Flow-Through Unit Warrant entitles the holder thereof to purchase one regular Class A common share of the Corporation (a "Common Share") at a price of $0.65 for a period of two years from the date of issuance.

On March 14, 2008, the Company completed the second closing of the Offering, issuing 2,131,055 Flow-Through Units at a price of $0.425 per Unit for gross proceeds of $905,698. In addition, the Company also issued 340,000 non-flow-through units ("Non-Flow Through Units") at a price of $0.40 per Non Flow-Through Unit for gross proceeds of $136,000. Each Non Flow-Through Unit consisted of one regular Common Share and one half of one Common Share purchase warrant (a "Non Flow-Through Unit Warrant"). Each whole Non Flow-Through Unit Warrant entitles the holder thereof to purchase one Common Share at a price of $0.60 for a period of two years from the date of issuance.

On March 28, 2008, the Company completed a third closing of the Offering, issuing 1,333,118 Flow-Through Units at a price of $0.425 per Unit for gross proceeds of $566,575.15 and 266,750 Non Flow-Through Units at a price of $0.40 per Non Flow-Through Unit for gross proceeds of $106,700.

16. Subsequent Event *(continued from previous page)*

(d) Shareholder Rights Plan

On March 17, 2008 the Company adopted a Shareholder Rights Plan (the “Rights Plan”), designed to ensure the fair treatment of shareholders in any transaction involving a change of control of the Company. The Rights Plan will provide the board of directors and shareholders with more time to evaluate any unsolicited take-over bid and, if appropriate, to seek out other alternatives to maximize shareholder value. The rights become exercisable only when a person (including a related party and joint actor of such person) acquires or announces its intention to acquire twenty percent or more of the outstanding Shares without complying with the permitted bid provisions of the Rights Plan. Should a non-permitted acquisition occur, each right would entitle shareholders (other than the acquiring person and related persons and joint actors of such acquiring person) to purchase additional Shares at a fifty (50%) percent discount to the market price at the time. The Rights Plan permits a permitted bid, which is a take-over bid made to all shareholders on identical terms and conditions that is open for acceptance for a period of at least 60 days. If at the end of the 60 day period at least 50% of the outstanding Shares (other than those owned by the offeror and related parties and joint actors of the offeror) have been tendered under the bid, the offeror may take up and pay for the tendered Shares but must extend the bid for a further 10 days to allow all shareholders to tender to the bid. The Rights Plan is subject to confirmation by shareholders at the annual and special meeting of the shareholders of the Company to be held on June 2, 2008.

17. Comparative Figures

Certain comparative figures have been reclassified to compare with the current year presentation.