Nordic Oil and Gas Ltd.
Financial Statements
For the years ended December 31, 2008 and 2007

To the Shareholders of Nordic Oil and Gas Ltd:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

April 17, 2009

[Signed by management]	[Signed by management]
Chief Executive Officer, or other senior officer	Chief Financial Officer, or other senior officer

To the Shareholders of Nordic Oil and Gas Ltd.

We have audited the balance sheets of Nordic Oil and Gas Ltd. as at December 31, 2008 and 2007 and the statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Winnipeg, Manitoba

April 17, 2009

Chartered Accountants

	2008	2007
	$	$
Assets		
Current assets		
Cash and cash equivalents	**161,172**	2,044,388
Short-term investments (Note 4)	**2,554,938**	204,191
Accounts receivable (Note 11)	**374,205**	879,725
	3,090,315	3,128,304
Property and equipment (Note 5)	**10,857,791**	4,543,811
Other assets (Note 6)	**165,185**	40,944
	14,113,291	7,713,059
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	**2,151,480**	247,416
Convertible debentures (Note 8)	**354,500**	665,937
	2,505,980	913,353
Asset retirement obligation (Note 7)	**524,539**	287,867
Future income taxes (Note 17)	**990,045**	232,249
	4,020,564	1,433,469
Shareholders' Equity		
Equity instruments (Note 9)	**11,646,010**	7,161,524
Equity portion of convertible debenture (Note 8 and 9)	**19,942**	41,965
Contributed surplus (Note 10)	**1,978,390**	1,631,847
Deficit	**(3,551,615)**	(2,555,746)
	10,092,727	6,279,590
	14,113,291	7,713,059

Nature of operations and going concern (Note 1)
Commitments (Note 12)
Contingencies (Note 13)
Subsequent event (Note 19)

Approved by the Directors:

Signed ***"Donald Benson"*** **Director**

Signed ***"Keith Peterson"*** **Director**

	2008 $	2007 $
Revenues		
Oil and natural gas sales	**1,487,971**	588,152
Royalty expense	**(307,900)**	(197,299)
	1,180,071	390,853
Expenses		
Depletion, amortization and accretion (Note 5 and 7)	**529,196**	259,886
Operating costs	**707,268**	258,913
General and administrative (Note 11)	**860,743**	576,742
Stock based compensation (Note 9)	**441,695**	530,211
	2,538,902	1,625,752
Loss before the following	**(1,358,831)**	(1,234,899)
Interest and financing charges	**(114,428)**	(143,490)
Interest income	**77,002**	7,823
Fair value adjustment of marketable securities	**(42,428)**	-
	(79,854)	(135,667)
Loss before income taxes	**(1,438,685)**	(1,370,566)
Future tax recovery (Note 17)	**442,816**	241,515
Loss for the year	**(995,869)**	(1,129,051)
Deficit, beginning of year	**(2,555,746)**	(1,423,316)
Change in accounting policies (Note 3)	**-**	(3,379)
Deficit, end of year	**(3,551,615)**	(2,555,746)
Basic and diluted loss per share (Note 9(j))	**(0.02)**	(0.06)

	2008	2007
	$	$
Cash flows from (used in) operating activities		
Loss for the year	**(995,869)**	(1,129,051)
Items not involving cash:		
Depletion, amortization and accretion	**529,196**	259,886
Interest and financing charges	**70,900**	80,437
Stock based compensation	**441,695**	530,211
Future tax recovery	**(442,816)**	(241,515)
Fair value adjustment of marketable securities	**42,428**	-
Changes in non-cash working capital items	**89,439**	(82,365)
	(265,027)	(582,397)
Cash flows provided by (used in) investing activities		
Property and equipment acquisitions	**(5,349,967)**	(1,060,604)
Sale of investments	**-**	15,304
Purchase of investments	**(2,316,173)**	-
	(7,666,140)	(1,045,300)
Cash flows provided by financing activities		
Issue of share capital – net of costs	**6,047,951**	3,238,662
	6,047,951	3,238,662
(Decrease) increase in cash during the year	**(1,883,216)**	1,610,965
Cash and cash equivalents, beginning of year	**2,044,388**	433,423
Cash and cash equivalents, end of year	**161,172**	2,044,388

Supplemental cash flow information

Interest paid	**33,486**	63,053

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, 2008 the Company had an operating loss before income taxes of $1,438,685. As described in Note 12(a), the Company has an unexpended flow through obligation of $4,977,708 to be incurred by December 31, 2009. 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 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, plus the lesser of cost and fair value of unproven properties. 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.

Computer and office equipment and compressor and metering stations are recorded at cost and are amortized at rates intended to amortize the cost of the assets over their estimated useful lives.

2. Significant Accounting Policies *(Continued)*

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.

Computer and office equipment is amortized on a declining balance basis at rates ranging from 30% to 45%. Compressor and metering stations are amortized on a 4% 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 collectability 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. Interest revenue is recognized when it is earned.

Asset retirement obligation

The Company recognizes the estimated fair value of an Asset Retirement Obligation (“ARO”) in the period in which it is incurred and 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.

Oil and gas reserves

The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity process, and timing of future expenditures. Nordic expects reserve estimates to be revised based on the results of future drilling, activity, testing, production levels and economics of recovery on cash flow forecasts.

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.

2. Significant Accounting Policies *(Continued)*

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.

Income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income taxes assets and liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

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, 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, but not limited to, the expected stock price volatility.

2. Significant Accounting Policies *(Continued)*

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 classification made by the Company of capital expenditures renounced to the holders of the Company's flow-through shares is based on estimates obtained from geological information obtained and such classification may be challenged by the taxation authorities.

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 the future income tax liability arising from such renouncements with a corresponding reduction of share capital at the date(s) of renunciation.

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 fair value.

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.

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

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities".

2. Significant Accounting Policies *(Continued)*

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets “held-to-maturity”, “loans and receivables”, and “other financial liabilities” are measured at amortized cost using the effective interest rate method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged from the prior year.

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 – marketable securities	Held-for-trading	Fair value
Short-term investments – GIC’s	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

Comprehensive income

Comprehensive income represents the change in shareholders’ equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available-for-sale. For 2008, the Company has not included a statement of comprehensive income as there were no such transactions.

3. Adoption of New Accounting Policies

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. The disclosures have been included in Note 15.

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. The disclosures have been included in Note 14.

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. The disclosures have been included in Note 1.

3. Adoption of New Accounting Policies *(Continued)*

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

4. Short-Term Investments

		2008		2007
Guaranteed investment certificates	$	2,533,583	$	204,191
Marketable securities, at fair value		21,355		-
	$	2,554,938	$	204,191

Guaranteed investment certificates are from a Canadian chartered bank with effective interest rates of 1.50% (2007 – 3.75%) maturing between June and August 2009. Interest is received on maturity.

Marketable securities represent shares in a Canadian junior oil and gas company. Unrealized losses for the year totaled $42,428.

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 as at December 31, 2008.

5. Property and Equipment

December 31, 2008	Cost	Accumulated depletion and amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 12,863,934	$ 2,748,161	$ 10,115,773
Computer and office equipment	43,306	11,784	31,522
Compressor and metering stations	710,496	-	710,496
	$ 13,617,736	$ 2,759,945	$ 10,857,791

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 and office equipment	21,178	6,845	14,333
	$ 6,797,601	$ 2,253,790	$ 4,543,811

No administrative expenses have been capitalized to property and equipment in 2008 and 2007. As at December 31, 2008, costs amounting to $4,677,242 (2007 - $1,802,852) that were incurred on unproven properties have been excluded from costs subject to depletion. Future development costs associated with proved reserves of $4,467,000 (2007 - $807,000) have been included in costs subject to depletion. No amortization of compressor and metering stations has been recorded during the current period as these assets are not yet available for use.

The Company applied the ceiling test to its capitalized assets at December 31, 2008 and 2007 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, 2008:

Year	AECO Natural Gas CDN$/mmbtu	WTI Cushing Oil US$/STB	Exchange rate US$/CDN$
2009	7.00	56.50	0.85
2010	7.50	70.00	0.88
2011	8.00	80.00	0.90
2012	8.50	90.00	0.95
2013	9.00	100.00	0.95
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. Exchange rates are expected to remain consistent from 2013 forward.

6. Other Assets

Other assets consist of the following:

	December 31, 2008	December 31, 2007
Deposits on oil & gas production	$ 165,185	$ 40,944

7. 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, 2008	December 31, 2007
Asset retirement obligation, beginning of year	$ 287,867	$ 218,961
Liabilities incurred	213,630	51,401
Accretion expense	23,042	17,505
Asset retirement obligation, end of year	$ 524,539	$ 287,867

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 $1,048,305 (2007 - $500,937). 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 2009 and 2024.

8. 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 component was $714,217 and the equity component was $43,090.

Total accretion expense related to the liability component of the convertible debenture is $15,438 (2007 - $24,377). 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 $55,462 (2007 - $56,060) leaving an unamortized balance of $nil (2007 - $55,462).

	2008	2007
Balance, beginning of year	$ 665,937	$ 716,374
Change in accounting policy		(111,522)
Conversion to Class A common shares	(382,337)	(19,352)
Accretion expense	15,438	24,377
Amortization of deferred costs	55,462	56,060
Balance, end of year	$ 354,500	$ 665,937

During the year convertible debentures with a notional value of $391,500 were converted into 1,566,000 Class A common shares of the Company. At the time of conversion, the equity component of convertible debentures was reduced by $22,023. The remaining principal balance of the debentures was repaid in January 2009.

9. 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 preferred shares

(b) Issued

The issued share capital is as follows:

	Year ended December 31, 2008		Year ended December 31, 2007	
	Number of shares	Amount	Number 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	-	-
Warrants exercised	909,666	479,408	-	-
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)
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

	Number of warrants	Amount	Number 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	$ 855,188
Total equity instruments		$ 11,646,010		$ 7,161,524

9. Equity Instruments *(Continued)*

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 $4,999,114 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.

During the year, 909,666 warrants were exercised at prices ranging from $0.30 to $0.40. Total cash received as a result of the exercise of these warrants was $339,166.

(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 February 22, 2008, the Company issued on a private placement basis, 2,416,094 units of the Company at $0.425 per share for the gross proceeds of $1,026,840. 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 $0.65. The purchase warrants expire in February 2010.

On March 14, 2008, the Company issued on a private placement basis, 2,131,055 units of the Company at $0.425 per share for the gross proceeds of $905,698. 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 $0.65. The purchase warrants expire in March 2010.

On March 14, 2008, the Company issued on a private placement basis 340,000 units of the Company at $0.40 per share for gross proceeds of $136,000. Each unit consists of one Class A non-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 $0.60. The purchase warrants expire in March 2010.

On March 28, 2008, the Company issued on a private placement basis, 1,333,118 units of the Company at $0.425 per share for the gross proceeds of $566,575. 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 $0.65. The purchase warrants expire in March 2010.

On March 28, 2008, the Company issued on a private placement basis 266,750 units of the Company at $0.40 per share for gross proceeds of $106,700. Each unit consists of one Class A non-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 $0.60. The purchase warrants expire in March 2010.

On June 30, 2008, the Company issued on a private placement basis, 4,166,667 units of the Company at $0.60 per share for the gross proceeds of $2,500,000. 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 $0.85. The purchase warrants expire in June 2010.

9. Equity Instruments *(Continued)*

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

Year ended December 31	2008	2007
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%

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 $0.60 per share. These warrants expire between February 2010 and June 2010.

(e) Issued from treasury

In 2006, the Company issued 169,062 Class A flow-through 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 flow-through 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 flow-through 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, 2008 the Company has the following stock options outstanding:

	Number of options	Option price range per share	Weighted average exercise price
Options outstanding, December 31, 2007	3,080,000	$0.25 – 0.60	$0.51
Granted [1]	2,020,000	$0.20 – 0.32	$0.25
Exercised	(287,500)	$0.25 – 0.40	$0.34
Expired	(890,000)	$0.20 – 0.60	$0.39
Options outstanding, December 31, 2008	3,922,500	$0.20 – 0.60	$0.41

(1) Options granted during the year vested immediately.

9. Equity Instruments *(Continued)*

The following table summarizes information about the stock options outstanding at December 31, 2008:

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
150,000	0.40	0.40	0.12	150,000	0.40
180,000	0.45	0.45	1.08	180,000	0.45
280,000	0.40	0.40	2.06	280,000	0.40
115,000	0.25	0.25	2.95	115,000	0.25
1,495,000	0.60	0.60	4.00	1,495,000	0.60
657,500	0.32	0.32	4.07	657,500	0.32
1,045,000	0.20	0.20	4.64	1,045,000	0.20
3,922,500	$ 0.41	$ 0.41	-	3,922,500	$ 0.41

As at December 31, 2007 the Company had 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	$0.25 – 0.60	$0.51

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

9. Equity Instruments *(Continued)*

During the year, under the fair-value-based method, $441,695 (2007 - $530,211) 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,	2008	2007
Risk free interest rate	3.4% - 3.7%	3.8%
Expected life (years)	5	5
Expected volatility	79% - 89%	34%
Expected dividend yield	0%	0%

(h) Escrow shares

As of the year end there are no (2007 – 338,129) common shares held in escrow.

(i) Dividends

Under the terms of the convertible debenture agreement (Note 8) 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, 2008 the Company owed $16,543 in interest with respect to the convertible debentures.

(j) Per share amounts

Per share calculations are based on the weighted average number of Class A common shares outstanding during the year of 44,038,148 (2007 – 19,094,704). For 2008 and 2007, 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	$	41,965
Conversion to Class A common shares		22,023
Balance, end of year	$	19,942

10. Contributed surplus

		2008		2007
Balance, beginning of year	$	1,631,847	$	842,096
Stock based compensation (Note 9 (f))		441,695		530,211
Options exercised		(118,375)		-
Warrants expired		23,223		259,540
Balance, end of year	$	1,978,390	$	1,631,847

11. 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, 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 agreement.

The Company has a services agreement established with Nordic Management Ltd. for various services. Nordic Management Ltd. receives $12,500 per month for management services, $1,875 per month for land-man services and $5,000 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 January 1, 2009; the fee for management services was increased to $13,333 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:

		2008		2007
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.

12. 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 $4,999,114 on qualified expenditures by December 31, 2009. As of December 31, 2008, the Company expended $21,406 of the qualified expenditures leaving a balance of $4,977,708 due by December 31, 2009.

(b) The Company has an outstanding letter of credit in the amount of $172,000 (2007 - $nil).

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

13. 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.

14. Financial Risk Management

(a) Overview

The Corporation has exposure to credit risk, liquidity risk and market risk. The board of directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables. The carrying amount of financial assets represents the maximum credit exposure.

The Company is subject to credit risk on its receivables. The Company has assessed the risk of not collecting as low as its customers are large integrated oil companies with long track records. During the year ended December 31, 2008, approximately 99% of sales were made to two large integrated oil companies.

14. Financial Risk Management *(Continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses.

The Company has working capital of $584,334 and $2,214,951 as at December 31, 2008 and 2007, respectively.

The Company manages its liquidity risk by continuously monitoring forecasted cash flows, assessing prospects for raising additional equity.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or value of financial instruments. The Company invests solely in Canadian dollars and therefore is not exposed to currency risk. The convertible debentures are not subjected to interest rate risk, as they carry a fixed rate of interest. Short-term investments are subjected to interest rate fluctuations based upon the change in the prime rate from the Bank of Canada.

(e) Fair value of financial instruments

The Company has determined the fair values of its financial instruments which consist of cash and cash equivalents, accounts receivable, short-term investments, marketable securities included in other assets, accounts payable and accrued liabilities and convertible debentures approximate carrying amount because of the short-term nature of these instruments, with the exception of marketable securities which are classified as held-for-trading, and valued at their quoted market price as of the balance sheet date.

Summary of financial instruments

Financial assets	**Carrying value**	**Fair value**
Held-for-trading:		
Cash and cash equivalents	$ 161,172	$ 161,172
Marketable securities	21,355	21,355
Held-to-maturity:		
Guaranteed investment certificates	2,533,583	2,533,583
Loans and receivables:		
Accounts receivable	374,205	374,205
Financial liabilities		
Other financial liabilities:		
Accounts payable and accrued liabilities	2,151,481	2,151,481
Convertible debentures	354,500	354,500

There have been no changes in classification of financial instruments since December 31, 2007.

(f) Commodity price risk management

The Company does not have any contracts in place to protect against commodity price changes.

15. Capital Management

The Company's objective is to maintain access to sources of capital with which to finance its operations. The Company maintains a capital structure of equity and convertible debentures.

The Company manages its capital structure and makes changes to it in light of changes in economic conditions and the risk characteristics of the underlying investments. The Company will balance its overall capital structure through new share and convertible debt issues or by undertaking other activities as deemed appropriate in the specific circumstances.

Under the terms of the convertible debenture agreement 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, 2008 the Company owed $16,543 with respect to convertible debentures.

The total capital as at December 31, 2008 and December 31, 2007 was calculated as follows:

As at December 31	2008		2007	
	Carrying amount	As a percentage of capital	Carrying amount	As a percentage of capital
Convertible debentures	$ 354,500	3.4%	$ 665,937	9.6%
Shareholders' equity	10,092,727	96.6%	6,279,590	90.4%
Total capital	$ 10,447,227	100.0%	$ 6,945,527	100.0%

16. 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.

17. Income Taxes

(a) Significant components of the future income tax liability at December 31, 2008 and 2007 include the following:

	2008	2007
Short-term investments	$ 11,007	$ -
Property and equipment and asset retirement obligations	(1,547,538)	(537,937)
Share issuance costs	180,512	104,418
Non-capital losses	365,973	201,270
	$ (990,045)	$ (232,249)

(b) Income tax expense differs from that which would be expected from applying the statutory Canadian federal and provincial 2008 income tax rates of 31.15% (2007 – 32.12%) to loss before income taxes as follows:

	2008	2007
Loss before income taxes	$(1,438,685)	$(1,370,566)
Combined federal and provincial tax rate	31.15%	32.12%
Expected income tax (recovery)	$ (448,133)	$ (440,226)
Increase (decrease) resulting from:		
Tax rate change	(141,396)	(7,886)
Non-deductible expenses	145,947	210,090
Other	766	(3,493)
Provision for income taxes (recovery)	$ (442,816)	$ (241,515)

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

	2008	2007
Cumulative Canadian oil and gas property expenses	$ 720,669	$ 720,669
Cumulative Canadian development expenses	2,416,812	657,839
Cumulative Canadian exploration expenses	21,406	249,284
Undepreciated capital cost	1,209,014	476,392
Non-capital loss carryforwards	1,410,731	802,029
Undeducted share issue costs carried forward	695,827	473,134

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

18. Future changes to significant accounting policies

In February 2008, the CICA's Accounting Standards Board confirmed the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, including comparative figures for 2010. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. Management is currently considering the effect on the financial statements of the new standards.

19. Subsequent Event

(a) Stock Options

In February 2009, 150,000 stock options previously issued at $0.40 expired. In March 2009, the Company granted 1,110,000 stock options at $0.10 to various officers, directors and consultants of the Company. These options vest immediately and expire five years from the date of grant.

20. Comparative Figures

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