



**NORDIC**  
OIL AND GAS LTD

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS FOR THE SIX MONTHS ENDED**

**JUNE 30, 2006**

## **NORDIC OIL AND GAS LTD.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED JUNE 30, 2006**

#### **General**

This Management Discussion & Analysis provides information on the operations, performance, financial condition and future prospects of Nordic Oil and Gas Ltd. and should be read in conjunction with the Company's financial statements and notes attached thereto for the six-month period ended June 30, 2006. The Company's financial statements are prepared in accordance with Canadian General Accepted Accounting Principles (GAAP). All figures are in Canadian dollars, unless otherwise noted. This Management Discussion and Analysis was prepared on August 28, 2006. Additional information on the Company is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

#### **Forward Looking Statements**

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

#### **Corporate Overview**

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

Nordic currently has an 85% interest in natural gas and CBM well production at Joffre, Alberta, approximately 30 kilometres east of Red Deer. As at June 30, 2006, the Company had five wells in production on its Joffre lands – three Belly River wells, one Viking well and one CBM well.

In addition, the Company also has an 80% interest in 137,780 acres of exploration permits located in the Preeceville area of east central Saskatchewan, plus a 50% interest in 14,355 acres on the Cote First Nation land near Kamsack, Saskatchewan.

#### **Critical Accounting Estimates & Changes in Accounting Policies**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("Canadian GAAP") requires the Company to select from possible alternative accounting policies and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and

expenditures during the reporting period. Management believes that the estimates and assumptions upon which the Company relies are reasonable based on information available at the time those estimates and assumptions were made. Estimates and assumptions may be revised as new information is acquired, and are therefore subject change. Stock-based compensation is considered to be one of these estimates.

Effective January 1, 2004, the Company retroactively adopted the CICA section 3110 “Asset Retirement Obligations”. The new recommendations required that the recognition of the present value of obligations associated with the retirement of petroleum and natural gas properties be recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is adjusted over time for changes in the value of the obligation through accretion charges, which are included in accretion expense. The costs capitalized to the related assets are amortized to income in a manner consistent with the depletion and depreciation of the underlying asset.

### **Stock-Based Compensation**

Effective January 1, 2004, The Company adopted the CICA section 3870 “Stock Based Compensation and Other Stock-Based Payments”, retroactively with restatement of prior periods. The recommendation required the Company to record a compensation expense over the vesting period based on the fair value of options granted to employees and directors. The Company therefore follows accounting guidelines in determining the value of stock-based compensation, as disclosed in Note 8 of the 2005 financial statements. This calculated amount is not based on historical costs, but is based on subjective assumptions, which are inputted into an option-pricing model. The model requires that management make several assumptions as to future events, including: 1. Estimating the average future hold period of issued stock options before exercise, expiry or cancellation; 2. Estimating future volatility of the Company’s share price in the expected hold period (using historical volatility as reference); 3. Calculating an appropriate risk-free rate of interest. The resulting value is not necessarily the value, which the holder of the option(s) could receive in an arm’s length transaction, given that there is no market for the options and that they are not transferable. It is management’s view that the value derived is highly subjective and dependent entirely on the input assumptions made. The Company recorded stock-based compensation expense of \$94,492 for the six months ended June 30, 2006, compared to \$77,752 for the similar period in 2005.

### **Selected Financial Information**

Total revenue for the six-month period ended June 30, 2006 was \$387,218, a decrease of approximately \$318,000 from the \$705,686 reported during the same period in 2005. Revenue for the three months ended June 30, 2006 totaled \$160,742, down from the \$304,394 reported in Q2 2005. The six-month total to date included \$355,022 in natural gas revenue compared to \$628,821 during the same period in 2005, \$8,242 in liquids revenue (\$45,444 in the first half of 2005), \$15,300 in transport revenue (\$28,050 in 2005) and \$8,653 in interest revenue (\$3,371 last year).

Cash and cash equivalents, including term deposits for the first six months of 2006, totaled \$377,669 compared to \$457,504 in the first half of 2005. In addition, net cash flow from operations totaled \$25,329 for the first six months of 2006, a decrease from the \$232,723 recorded for the same period in prior year.

Total assets as at June 30, 2006 were \$3,757,402, compared to \$3,059,189 at the same period in 2005, an increase of approximately 23%. General and administration expenses for the period decreased over the comparable period in 2005 - \$71,866 versus \$75,183. Overall expenses decreased by approximately 17% to \$416,059 for the first half of 2006, compared to \$500,872 in 2005. In addition, production costs for the first six months of 2006 also decreased compared to the same period a year ago - \$99,508 compared to \$107,867 for the same period last year.

The Company recorded a net loss of \$225,577 for the period compared to a loss of \$72,886 during the first half of 2005.

The table below sets out the relevant variables in revenue for Nordic's oil and gas production on a three-month comparative basis:

<b>REVENUE</b>	<b>6 Months Ended <u>June 30, 2006</u></b>	<b>6 Months Ended <u>June 30, 2005</u></b>
Oil and Gas Revenue	\$355,022	\$628,821
Liquids Revenue	\$ 8,242	\$ 45,444
Transport Revenue	\$ 15,300	\$ 28,050
Interest Revenue	<u>\$ 8,653</u>	<u>\$ 3,371</u>
<b>Total Revenue</b>	<b>\$387,218</b>	<b>\$705,686</b>

### Summary of Quarterly Results

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

<b>Three Months Ended:</b>	<b><u>6/30/06</u></b>	<b><u>3/31/06</u></b>	<b><u>12/31/05</u></b>	<b><u>9/30/05</u></b>
Cash & Short-term investments	\$731,000	\$1,108,073	\$1,457,601	\$376,480
Revenue	\$160,742	\$ 226,476	\$ 77,865	\$322,723
Net Income (Loss)	(\$84,798)	(\$ 140,799)	(\$ 230,485)	\$ 26,426
Earnings (Loss) per share	(\$0.0055)	(\$ 0.0091)	(\$ 0.0192)	\$ 0.0002
<b>Three Months Ended:</b>	<b><u>6/30/05</u></b>	<b><u>3/31/05</u></b>	<b><u>12/31/04</u></b>	<b><u>9/30/04</u></b>
Cash & Short-term Investments	\$457,504	\$666,684	\$ 934,890	\$ 97,303
Revenue	\$304,394	\$401,392	\$ 440,886	\$495,991
Net Income (Loss)	\$ 1,948	(\$74,814)	(\$113,358)	(\$56,795)
Earnings (Loss) per share	\$ 0.001	(\$0.0063)	(\$ 0.0116)	(\$0.0059)

An analysis of the quarterly results over the last eight quarters shows relatively strong revenue and cash and short-term investment totals. In addition, with the exception of Q4 2005, revenue totals have been relatively consistent. Fourth quarter revenue (and subsequent income) for the three months ended December 31, 2005 was impacted as a result of a one-time adjustment by the gas operator in the region who had an incorrect gas analysis on the Company's gas wells. This in turn had a downward effect on the Company's earnings for the quarter. Revenue has declined somewhat in 2006 due to the decrease in production from the Company's producing wells.

From time to time, net income was negatively impacted due to the costs related to stock options, Asset Retirement Obligation (ARO) and higher depletion costs, which were recorded as expenses on the income statement. The stock options had an estimated cost of \$172,244 over the past two-plus years.

### **Royalties & Production Expenses**

Royalties paid in the first half of 2006, net of Alberta royalty tax credits, totaled \$97,227 as opposed to \$169,833 in the first half of 2005. Total well expenses were somewhat lower during the period, as compared to 2005, due to the decreased costs associated with the producing wells that the Company had in operation last year. In addition, operating costs were also somewhat lower (\$99,508 compared to \$107,867), resulting in overall production and royalty costs being reduced to \$196,735 during the period under review, versus \$277,700 in prior year.

Average production volume for the first six months ended June 30, 2006 was 9,154.33 GJ, or 52 BOE/day. The Company received \$6.37/GJ as an average gas price during the first half of the year.

### **Analysis of Expenses**

Expenses decreased by approximately \$85,000 on a comparative basis to \$416,059 during the first half of 2006 compared to \$500,872 for the same period in 2005. The table below outlines the changes in the major categories:

<b>EXPENSES</b>	<b>6 Months Ended June 30, 2006</b>	<b>6 Months Ended June 30, 2005</b>
Depletion & Amortization Expense	\$133,974	\$227,857
General & Administration Expenses	\$ 71,866	\$ 75,183
Geological Services	\$ 32,093	\$ 16,025
Management Fees	\$ 60,000	\$ 60,000
Professional Fees	\$ 8,338	\$ 35,938
Regulatory Fees	\$ 15,296	\$ 8,117
Stock Based Compensation	\$ 94,492	\$ 77,752
<b>Total Expenses</b>	<b>\$416,059</b>	<b>\$500,872</b>

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

compensation, and as such, the cost of the options is charged to income with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value. During the first six months of 2006, stock options having an estimated expense of \$94,492 were issued.

### **Liquidity and Capital Resources**

Nordic settles sales receivables and trade payables in accordance with normal industry standards while maintaining working capital liquidity by drawing from and repaying its bank overdraft facility as needed. The Company expects to be able to fund its 2006 capital expenditure program using operating cash flow and equity funds raised in 2005.

The Company utilizes equity issues from time to time to finance an expansion of its capital program. In December 2005, the Company closed two private placement financings for a total of 3,424,175 shares at a price of \$0.40 per share in the gross amount of \$1,369,670.00.

In May 2006, Nordic Oil and Gas announced its intention to raise up to \$2 million in units (each, "Unit") by way of a Private Placement Offering, at a price of \$0.40 per Unit and, up to a further \$2 million in common shares on a flow-through basis (each, a "Flow-Through Common Share") at a subscription price of \$0.55 per Flow-Through Common Share. The Units were to consist of one common share and one-half of one common share purchase warrant ("Warrant"), with each whole Warrant exercisable into one common share of the Corporation for a period of 18 months from Closing at a price of \$0.60 per share.

Subsequently, in June 2006, the Company announced an amendment to the terms of the previously announced offering of Class A common shares to be issued as "flow-through shares" within the meaning of the *Income Tax Act* (Canada) (the "Flow-Through Shares"), and units of the Corporation ("Units"). Pursuant to the original Offering, the Corporation announced that it would offer: (i) up to 5,000,000 Flow-Through Shares at a price of \$0.40 per Flow-Through Share for gross proceeds of up to \$2,000,000; and (ii) up to 5,714,286 Units at a price of \$0.35 per Unit for gross proceeds of up to \$2,000,000. Each Unit is comprised of one Class A common share and one-half of one Class A common share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder thereof to purchase one Class A common share at a price of \$0.50 for a period of 18 months from the date of issuance. All other terms of the Offering remain the same.

### **Financial Instruments**

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

**A) Commodity Price Risk**

The Company will be subject to price risk for the delivery of natural gas and crude oil.

**B) Credit Risk**

A significant portion of the Company's cash is currently held with the same financial institution and, as such, the Company is exposed to concentration of credit risk. Substantially all of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

**Future Income Taxes**

The company follows the liability method of accounting for income taxes. Under this method, income taxes are recognized for the future income tax consequences attributable to differences between the carrying value and the tax bases of assets and liabilities. The components of the future income tax liability are as follows:

• Property and equipment	\$(477,288)
Flow-through share renouncement to be incurred	
• Non-capital losses	--
• Share issue costs	<u>\$109,403</u>
• Future tax liability	\$(367,885)

In assessing the realizability of future tax assets, management considers whether or not it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the schedule reversal of projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term, based upon future taxable income during the carry-forward period.

**Off Balance Sheet Arrangements**

The Company has no off balance sheet arrangements.

**Related Party Transactions**

Substantially all of the Company's activities are undertaken jointly with related parties by Joint Venture agreements.

During the first half of the year under review, Nordic Oil and Gas Ltd. paid \$10,000 in monthly management fees and \$1,850 per month for accounting services, to Nordic Management Ltd., a company that certain of Nordic Oil and Gas Ltd.'s Directors and officers control.

**Summary of Securities Issued During the Six-Month Period Ended June 30, 2006**

None issued.

### Equity Instruments

The authorized capital of the Company is an unlimited number of Class A common shares.

The issued capital is as follows:

	2006		2005	
	Shares	Amounts	Shares	Amounts
Class A Common Shares	15,418,480	\$3,112,236	11,808,194	\$2,058,138
Warrants Outstanding	1,712,088	\$ 164,859	2,399,769	<u>\$ 216,032</u>
Agents' Warrants	333,934	<u>\$ 54,681</u>		
Balance of all Equity Instruments		\$3,331,776		\$2,274,170

Each unit of the Company sold as flow-through common shares entitled the purchaser to one-half of a share warrant, which can be purchased for \$0.60. At the date of the statement there were 2,046,022 warrants outstanding. Agents' warrants are exercisable at \$0.40.

The Company has established a stock option plan for its directors, officers, key employees, agents, and consultants. The total number of authorized and unissued 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. At the balance sheet date – June 30, 2006 - there were 1,420,000 options outstanding.

Issued	Option Price	Expire
525,000	\$ 0.40	1/7/2008
50,000	\$ 0.40	5/21/2008
50,000	\$ 0.40	9/22/2008
25,000	\$ 0.40	10/9/2008
160,000	\$ 0.40	2/12/2009
260,000	\$ 0.45	1/31/2010
350,000	\$ 0.40	1/22/2011

During 2005, stock options were extended to the following corporate officers and Directors:

- Donald Benson Chairman & CEO 30,000
- Keith Peterson, Secretary-Treasurer & Director 30,000
- Michael Mann, Geologist & Director 30,000
- Barry Palka, Director 30,000
- Brahm Silverstone, Geophysicist & Director 30,000

In addition to the above-noted options, a further 110,000 stock options were granted to three Nordic Oil and Gas consultants, for an overall total of 260,000 options. The options were effective January 31, 2005 and will run for a period of five years at a price of \$0.45 per share.

During the first quarter of 2006, the Nordic Oil and Gas Board of Directors approved the granting of 350,000 stock options to various officers, directors and consultants of the Company at an exercise price of \$0.40 per common share, as follows:

Donald Benson Chairman & CEO 80,000

Keith Peterson, Secretary-Treasurer 50,000

Michael Mann, Director 50,000

Barry Palka, Director 50,000

Brahm Silverstone, Director 50,000

In addition to the above, a further 70,000 stock options have been granted to three Nordic Oil and Gas consultants, bringing the overall total to 350,000. The options are effective January 23, 2006 and will run for a period of five years.

As at the date of preparation of this Nordic Oil and Gas Ltd. Management Discussion & Analysis, the Company had 15,418,480 issued and outstanding Class A Common Shares.

### **Highlights of Operations for the six months ended June 30, 2006**

The Company has begun 2006 with several significant announcements regarding the drilling of new Coal Bed Methane wells in Joffre:

#### **JANUARY**

- The Company and its industry partner completed drilling a new Coal Bed Methane (CBM) well at 10-18-38-24 W4 in Joffre. This well will be paid for 100% by Nordic's 50/50 partner.
- With the completion of this first well, the rig moved to a second site at 14-18-38-24.

#### **FEBRUARY**

- The Company and its industry partner completed drilling the second of three new Coal Bed Methane (CBM) wells on its Joffre property, located at 14-18-38-24.

#### **MARCH**

- The Company and its Joint Venture industry partner completed drilling of their third new Coal Bed Methane (CBM) well located at 7-24-38-25 W4 on Nordic's Joffre property. The well was drilled and paid for 100% by Nordic's JV partner, with the JV partner earning a 50% interest in the Edmonton sands and coals in the section. The completion of this new CBM well brings to eight the number of wells in which Nordic Oil and Gas has an interest in the Joffre area. Furthermore, an additional two wells are scheduled to be drilled on the section following break-up.

## MAY

- Nordic licensed a new Belly River well at 16-20-38-24 W4 at Joffre. The licensing of this Belly River well complements Nordic's recent announcements that three new Coal Bed Methane (CBM) wells have been drilled at Joffre.

### **Outlook**

Looking ahead to the remainder of 2006, Nordic Oil and Gas will continue focusing its activities and initiatives in its key operating areas, maintaining a high working interest at all its properties, thereby ensuring that the Company will competently manage all aspects of its operations.

The Company has applied for the licensing of two new wells – one on its Cote First Nation land, the other in Preeceville. It is anticipated that both of these wells should be drilled during the third quarter 2006.

In Joffre, preparations are underway for the start of drilling at the Company's 14-12-38-25 W4 location. The Company is in the process of sending its partners an Authorization for Expenditure (AFE) for their approval. Nordic holds a 31.875% interest in the well. Nordic has two locations licensed in Joffre and plans to drill both of these wells during Q3 2006.

In addition, the Company expects to place on production, within 60 days, the three Coal Bed Methane wells drilled in the first quarter.

### **Business Risks & Uncertainties**

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

- **Operational Risks** – Oil and Natural Gas operations are subject to all the risks and hazards typically associated with such operations, including fire, explosions, blowouts, formation damages and oil spills, all or any of which could have a negative impact on oil and gas wells, production facilities, related property, the environment, or in personal injury. Operational risks also include finding and developing Natural Gas reserves on an economically viable basis, reservoir production performance, marketing, and assessing contract services on a cost-effective basis. .
- **Financial Risks** – Financial risks including commodity and market fluctuations, interest rates and any rates of applicable currency exchange. Nordic Oil and Gas's results of operations and financial considerations are dependent on the prices received for oil and Natural Gas production from reserves in which it has a working interest. Oil and Natural Gas prices have fluctuated widely in the past, with oil in particular subject to national and international supply and demand ratios, along with political development and instability in the Middle East. In addition, the marketability of the Company's products also will depend upon the availability and capacity of gathering systems and pipelines, the effect of federal

and provincial legislation on such production, and the general economic conditions of the marketplace.

- Price Volatility of Publicly Traded Securities – In recent years, the Securities Markets in Canada and the United States have experienced a high level of price and volume volatility, with the market price of securities of many companies undergoing wide fluctuations in price, which have not necessarily been related to operating performance, underlying asset value or prospects.
- Development of Additional Reserves – The future success of Nordic Oil and Gas may also depend on the Company’s ability to find or acquire additional oil and gas reserves that are economically recoverable.
- Competition – The Oil and Natural Gas industries are extremely competitive, and, as such, Nordic Oil and Gas will continue to seek out potential joint venture partners, capital, and undeveloped land with a variety of other companies.
- Regulatory Risks – Regulatory risks include environmental regulation, royalties and taxation, all of which are beyond the control of the Company.

### **Corporate Information**

Stock Exchange	Toronto Venture Exchange
Trading Symbol	NOG
Management Team	Donald P. Benson, President & CEO; Chairman Keith Peterson, Secretary-Treasurer & Director
Independent Directors	Michael Mann Barry Palka Brahm Silverstone
Auditors	BDO Dunwoody LLP, Winnipeg, Manitoba
Transfer Agent	CIBC Mellon Trust Company, Calgary, Alberta
Head Office	4727 Roblin Boulevard Winnipeg, Manitoba R3R 0G2 Tel. 204-956-5042 Fax: 204-897-7154 Web site: <a href="http://www.nordicoilandgas.com">www.nordicoilandgas.com</a>