



NORDIC
OIL AND GAS LTD

**MANAGEMENT'S DISCUSSION AND
ANALYSIS FOR THE THREE MONTHS
ENDED MARCH 31, 2006**

NORDIC OIL AND GAS LTD.

FIRST QUARTER 2006 MANAGEMENT'S DISCUSSION AND ANALYSIS

General

The following discussion of performance, financial condition and future prospects should be read in conjunction with the Company's financial statements and notes attached thereto for the three months ended March 31, 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 May 25, 2006. Additional information on the Company is available on the SEDAR website at www.sedar.com.

Corporate Overview

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

Nordic currently has an 85% interest in natural gas, natural gas liquids and CBM well production at Joffre, Alberta, approximately 30 kilometres east of Red Deer. As at March 31, 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 three months ended March 31, 2006, compared to \$77,752 for the similar period in 2005.

Selected Annual Financial Information

Revenue for the quarter ended March 31, 2006 totaled \$226,476, a decrease of approximately \$175,400 from the \$401,932 reported during the first quarter of 2005. However, revenue in the first quarter was up significantly from the \$77,865 reported in Q4 2005. The 2006 total included \$213,632 in natural gas revenue compared to \$356,309 during the same period in 2005. The decrease in total revenue was a largely due to a drop in liquids revenue – \$4,271 as opposed to \$29,343 in 2005. This was a result of the operator in the region adjusting the gas analysis of the wells, which in turn caused an adjustment for amounts paid for natural gas liquids and for the heat value of natural gas.

Cash and cash equivalents, including term deposits for the quarter, was up from a year ago to \$1,108,073 compared to \$666,684 in the first quarter of 2005. In addition, net cash flow from operating activities (cash received from operators minus cash paid to suppliers and for royalties, plus interest earned) totaled \$117,368 for the first quarter in 2006, a decrease from the \$219,756 reported in prior year.

Total assets as at March 31, 2006 were \$4,503,598, compared to \$3,165,961 at the same period in 2005, which represents an increase of approximately 42%. General and administration expenses for the quarter decreased over the comparable period in 2005 - \$27,952 versus \$34,774. Overall expenses decreased by approximately 12% to 258,167 for the first quarter of 2006, compared to \$294,571 in 2004. In addition, production costs

for the quarter also decreased compared to the same period a year ago - \$109,108 compared to \$182,176 last year.

The Company recorded a net loss of \$140,799 for the period compared to a loss of \$74,814 during the first quarter 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:

REVENUE	3 Months Ended <u>March 31, 2006</u>	3 Months Ended <u>March 31, 2005</u>
Oil and Gas Revenue	\$213,632	\$356,309
Liquids Revenue	\$ 4,271	\$ 29,343
Transport Revenue	\$ 7,650	\$ 15,300
Interest Revenue	<u>\$ 923</u>	<u>\$ 980</u>
Total Revenue	\$226,476	\$401,932

Summary of Quarterly Results

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

Three Months Ended:	<u>3/31/06</u>	<u>12/31/05</u>	<u>9/30/05</u>	<u>6/30/05</u>
Cash & Short-term investments	\$1,108,073	\$1,457,601	\$376,480	\$457,504
Revenue	\$ 226,476	\$ 77,865	\$322,723	\$304,394
Net Income (Loss)	(\$ 140,799)	(\$ 230,485)	\$ 26,426	\$ 1,948
Earnings (Loss) per share	(\$ 0.0091)	(\$ 0.0192)	\$ 0.0002	\$ 0.001
Three Months Ended:	<u>3/31/05</u>	<u>12/31/04</u>	<u>9/30/04</u>	<u>6/30/04</u>
Cash & Short-term Investments	\$666,684	\$ 934,890	\$ 97,303	(\$ 3,448)
Revenue	\$401,392	\$ 440,886	\$495,991	\$423,655
Net Income (Loss)	(\$74,814)	(\$113,358)	(\$56,795)	\$ 30,658
Earnings (Loss) per share	(\$0.0063)	(\$ 0.0116)	(\$0.0059)	\$ 0.0032

An analysis of the quarterly results over the last eight quarters shows continuous 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.

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 \$246,684 over the past two-plus years.

Royalties & Production Expenses

Royalties paid in the first quarter of 2006, net of Alberta royalty tax credits, totaled \$59,249 as opposed to \$149,228 in Q1 2005. Total well expenses were somewhat lower the quarter when compared to 2005, due to the decreased costs associated with the producing wells that the Company had in operation last year. Although operating costs were somewhat higher (\$49,859 compared to \$32,948), overall production/well costs reduced to \$109,108 during the quarter under review, versus \$182,176 in prior year

Average monthly production volume for the quarter ended March 31, 2006 was 10, 979 GJ, or 58 BOE/day. The Company received \$7.07/GJ as an average gas price during the quarter.

Analysis of Expenses

Expenses, minus royalty payments and productions costs, decreased by approximately \$36,400 on a comparative basis to \$258,167 during Q1 2006 compared to \$294,571 for Q1 2005. The table below outlines the changes in the major categories:

EXPENSES	3 Months Ended <u>March 31, 2006</u>	3 Months Ended <u>March 31, 2005</u>
Depletion & Amortization Expense	\$ 72,171	\$132,601
General & Administration Expenses	\$ 27,952	\$ 34,774
Geological Services	\$ 24,085	\$ 11,530
Management Fees	\$ 30,000	\$ 30,000
Professional Fees	\$ 1,791	\$ 2,786
Regulatory Fees	\$ 7,676	\$ 5,128
Stock Based Compensation	\$ 94,492	\$ 77,752
Total Expenses	\$258,167	\$294,571

(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 quarter ended March 31, 2006, stock options having an estimated cost 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.

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.

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 quarter 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 Quarter ended March 31, 2006

None issued.

Share Capital and Stock Options

Authorized: Unlimited Number of Class A Common Shares Issued:

2005: 15,418,480 Class A Common Shares

2004: 11,808,194 Class A Common Shares

The Company has established a stock option plan for its directors, officers, key employees, agents, and consultants. The total number of authorized and un-issued common shares allocated to, and made available to, such participants under the plan, shall not exceed 10% of the issued and outstanding Class A Common Shares at the time of the granting of the option. At the balance sheet date – March 31, 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 the Nordic Oil and Gas Management Discussion & Analysis, the Company had 15,418,480 issued and outstanding Class A Common Shares.

Highlights of Operations for the Quarter ended March 31, 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.

Events Subsequent to the End of the First Quarter,

In May, Nordic announced that it had licensed a new Belly River well at 16-20-38-24 W4 at Joffre and that it was seeking a rig and will commence drilling as soon as one is secured. 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.

In addition, Nordic also announced in May its intention to raise up to \$2 million in units 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 at a subscription price of \$0.55 per Flow-Through Common Share. The Units will 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. It is expected that the Offering will close on or about June 12, 2006, subject to regulatory approval. All the terms of the Offering are also subject to the approval of the TSX Venture Exchange.

Outlook

Regarding Nordic's drilling initiatives in Preeceville, Saskatchewan, the Company plans to re-enter the 14-14-39-5 W2 well that was drilled and cased at a depth of 400 metres in late November 2005. In addition, the Company also expects to drill a new exploration well on the land owned by the Cote First Nation near Kamsack, Saskatchewan. It is anticipated that both of these initiatives will be undertaken during the 2nd quarter of 2006.

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 recent announcement regarding the proposed financing, will allow the Company to quickly move forward with its plan to drill up to 15 new wells in the region. The four months of production from our first CBM well and these three new wells drilled in 2006, leave the Company with eight additional CBM and nine Belly River well locations on the same sections of land.

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
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