

**ISSUER DETAILS**

<b>NAME OF ISSUER</b>	<b>FOR PERIOD ENDED</b>	<b>DATE OF REPORT</b>
NORDIC OIL AND GAS LTD.	September 30, 2010	March 11, 2011

**ISSUER ADDRESS**

4727 ROBLIN BOULEVARD

<b>CITY</b>	<b>PROVINCE</b>	<b>POSTAL CODE</b>	<b>ISSUER FAX NO.</b>	<b>ISSUER TELEPHONE NO.</b>
WINNIPEG	MANITOBA	R3R 0G2	(204) 897-7154	(204) 956-5042

<b>CONTACT NAME</b>	<b>CONTACT POSITION</b>	<b>CONTACT TELEPHONE NO.</b>
DONALD P. BENSON	PRESIDENT	(204) 956-5042

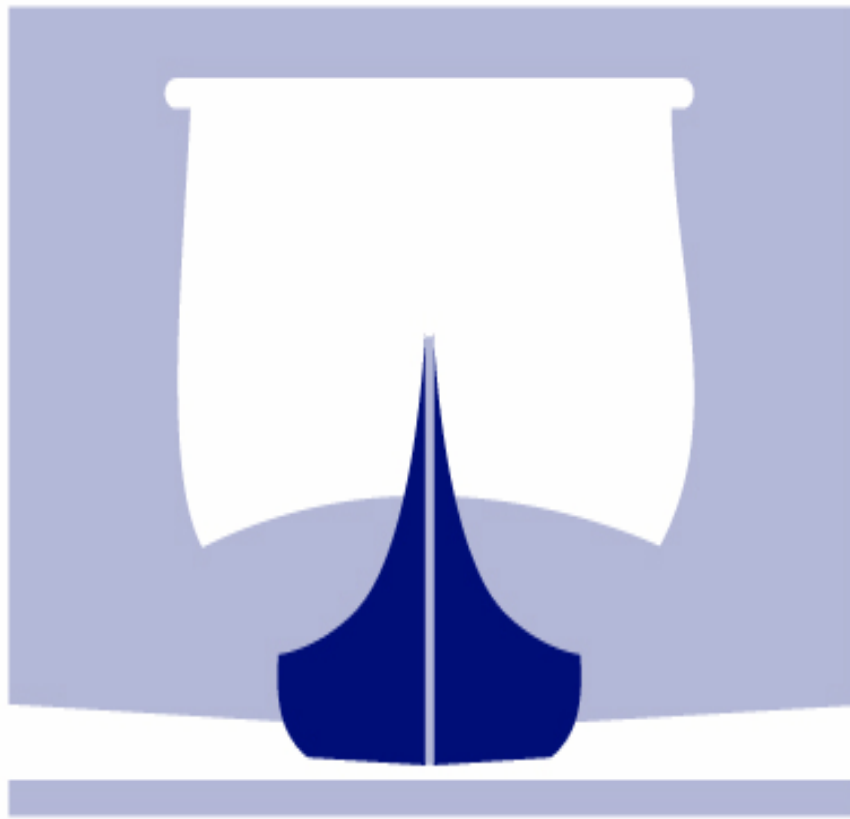
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**CERTIFICATE**

THE THREE SCHEDULES REQUIRED TO COMPLETE THIS REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT.

<b>DIRECTOR'S SIGNATURE</b>	<b>PRINT FULL NAME</b>	<b>DATE SIGNED</b>
"Donald Benson"	DONALD P. BENSON	11/03/2011

<b>DIRECTOR'S SIGNATURE</b>	<b>PRINT FULL NAME</b>	<b>DATE SIGNED</b>
"Barry Palka"	BARRY PALKA	11/03/2011



**NORDIC**  
OIL AND GAS LTD

***Notice of No Auditor Review***

**NORDIC OIL AND GAS LTD.**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the established standards by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the entity's auditors.

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**Nordic Oil and Gas Ltd.****Balance Sheet**

As at September 30, 2010

(Unaudited)

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<b>ASSETS</b>	<b>Sept. 30, 2010 Restated (note 2)</b>	<b>December 31, 2009</b>
<b>Current Assets</b>		
Cash	-	162,216
Short-Term Investments (note 3)	254,670	242,332
Accounts Receivable (note 9)	405,422	684,121
Deposits	190,529	100,093
	<u>850,621</u>	<u>1,188,762</u>
<b>Capital Assets</b>		
Property and Equipment (note 4)	11,011,938	16,168,787
<b>Total Assets</b>	<u>\$ 11,862,559</u>	<u>\$ 17,357,549</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY****Current Liabilities**

Bank indebtedness	87,677	-
Accounts Payable (note 9)	1,987,356	4,834,870
	<u>2,075,033</u>	<u>4,834,870</u>

**Long-Term Liabilities**

Convertible Debentures (note 6)	290,734	231,734
Asset Retirement Obligation (note 5)	770,401	1,064,855
Future Tax Liability	1,485,904	1,771,652
<b>Total Liabilities</b>	<u>4,622,072</u>	<u>7,903,111</u>

**Shareholders' Equity**

Equity Instruments (note 7)	11,009,943	11,226,700
Equity portion of convertible debenture (note 7)	204,270	204,270
Contributed Surplus (note 8)	2,956,263	2,805,301
Deficit	(6,929,989)	- 4,781,833
<b>Total Shareholders' Equity</b>	<u>7,240,487</u>	<u>9,454,438</u>

<b>Total Liabilities &amp; Equity</b>	<u>\$ 11,862,559</u>	<u>\$ 17,357,549</u>
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Nature of operations and going concern (note 1)

Commitments (note 10)

Contingencies (note 11)

Subsequent events (note 16)

Approved by the Directors:

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Director

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Director

**Nordic Oil and Gas Ltd.**  
**Statement of Operations and Loss**  
For the period ended September 30, 2010  
(Unaudited)

	Three months ended		Nine months ended	
	Sept. 30,		Sept. 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
	(note 2)	(note 2)	(note 2)	(note 2)
<b>Revenues</b>				
Oil and natural gas sales	182,225	383,463	520,110	1,000,258
Royalty expense	(22,344)	(14,950)	(43,426)	(68,164)
	<u>159,881</u>	<u>368,513</u>	<u>476,684</u>	<u>932,094</u>
<b>Expenses</b>				
Depletion, amortization and accretion	128,067	125,409	452,783	339,449
Operating costs	149,296	363,313	508,158	919,350
General and administrative	197,453	137,992	807,775	525,332
Stock based compensation	-	85,337	69,739	133,389
	<u>474,815</u>	<u>712,051</u>	<u>1,838,455</u>	<u>1,917,520</u>
<b>Loss before the following</b>	<b>(314,934)</b>	<b>(343,538)</b>	<b>(1,361,771)</b>	<b>(985,426)</b>
Interest and financing charges	(19,288)	(34)	(46,844)	(32,424)
Interest income	490	2,418	3,630	12,845
Loss on sale of properties	(1,580,690)	-	(1,580,690)	-
Gain(loss) on marketable securities	10,645	-	10,645	-
	<u>(1,588,843)</u>	<u>2,384</u>	<u>(1,613,259)</u>	<u>(19,579)</u>
<b>Loss before income taxes</b>	<b>(1,903,777)</b>	<b>(341,154)</b>	<b>(2,975,030)</b>	<b>(1,005,005)</b>
Future income tax (recovery)	(489,862)	(64,043)	(826,874)	(426,015)
<b>Net loss for the period</b>	<b>(1,413,915)</b>	<b>(277,111)</b>	<b>(2,148,156)</b>	<b>(578,990)</b>
Deficit, beginning	- 5,516,074	- 3,853,494	- 4,781,833	- 3,551,615
<b>Deficit, ending</b>	<b>- 6,929,989</b>	<b>- 4,130,605</b>	<b>- 6,929,989</b>	<b>- 4,130,605</b>
<b>Basic and diluted</b>				
<b>loss per share for the period</b>	<b>\$ (0.020)</b>	<b>\$ (0.005)</b>	<b>\$ (0.031)</b>	<b>\$ (0.010)</b>

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**Nordic Oil and Gas Ltd.****Statement of Cash Flow**

For the period ended September 30, 2010

(Unaudited)

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<b>Cash Flow from Operating Activities</b>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>Sept. 30,</b>		<b>Sept. 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>Restated</b>	<b>Restated</b>	<b>Restated</b>	<b>Restated</b>
	<b>(note 2)</b>	<b>(note 2)</b>	<b>(note 2)</b>	<b>(note 2)</b>
Net Loss for the period	- 1,413,915	- 277,111	- 2,148,156	- 787,403
Adjustments for				
Depletion, amortization and accretion	128,067	137,536	452,783	371,213
Stock Based Compensation	-	85,337	69,739	133,389
Interest income	490	-	3,630	-
Future income tax recovery	- 489,862	- 64,043	- 826,874	- 426,015
Changes in depletion base, asset retirement obligation, and property and equipment resulting from sales	- 69,330	-	5,065,223	-
Loss on disposal of Lloyminster	1,580,690	-	1,580,690	-
Gain on marketable securities	(10,645)	-	(10,645)	-
Changes in non-cash working capital	313,570	743,744	- 2,671,589	2,343,579
Total cash from (used in) operations	39,064	132,393	- 1,066,489	1,634,763
<b>Investing Activities</b>				
Property and equipment acquisitions	- 457,542	- 859,478	- 743,901	- 1,723,935
Proceeds from sale of assets and royalty	-	-	1,089,497	-
Total	- 457,542	- 859,478	345,596	- 1,723,935
<b>Financing Activities</b>				
Shares issued	-	912,289	471,000	912,289
Repayment of convertible debentures	-	(131,427)	-	(370,175)
Total	-	780,862	471,000	542,114
<b>Increase (Decrease) in cash and equivalents, during the year</b>	- 418,477	53,777	- 249,893	452,942
Cash, beginning	330,800	560,877	162,216	161,712
Bank indebtedness, ending	(87,677)	614,654	(87,677)	614,654

## NOTES TO THE FINANCIAL STATEMENTS

### 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, Saskatchewan and Manitoba.

These financial Statements have been prepared on a going concern basis that contemplates realization of assets and the satisfaction of liabilities and commitments in the normal course of business. At September 30, 2010 the Company had a year to date operating loss of \$2,975,030 and a working capital deficit of \$1,224,412. The Company's ability to continue as a going concern is dependant 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 made necessary if the going concern assumption is not appropriate and these adjustments may be material.

The interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The interim financial statements reflect the operations of the Company. The interim financial statements have been prepared on a consistent basis with the December 31, 2009 audited financial statements. These financial statements do not include all the information and disclosures required by Canadian generally accepted accounting principles for annual financial statements and should be read in conjunction with the December 31, 2009 audited financial statements and notes thereto.

## 2. RESTATEMENT OF PREVIOUS RESULTS

Due to the correction of errors that were discovered relating to the treatment of the royalty and property sale of the Lloydminster assets, accruals, financial instruments and equity based transactions in the previously filed Q3 financial statements, the following financial statement items have changed from the previously filed Q3 2010 financial statements:

Statement	Item	Initial amount	Restated amount	Difference
Balance sheet	Current assets	1,040,502	850,621	189,881
	Capital assets	12,486,624	11,011,938	1,474,686
	Current liabilities	2,186,568	2,075,033	111,535
	Long-term liabilities	1,246,096	2,547,039	(1,300,943)
	Equity	10,094,462	7,240,487	2,853,975
Statement of operations and loss (3 months)				
	Expenses	458,269	474,815	(16,546)
	Loss before taxes	(404,262)	(1,903,777)	1,499,515
	Net loss	(276,060)	(1,413,915)	1,137,855
	Net loss per share	(0.004)	(0.020)	(0.016)
Statement of operations and loss (year to date)				
	Expenses	1,537,976	1,838,455	(300,479)
	Loss before taxes	(1,213,817)	(2,975,030)	1,761,213
	Net loss	(928,267)	(2,148,156)	1,219,889
	Net loss per share	(0.013)	(0.031)	(0.018)
Statement of cash flows (3 months)				
	Operating activities	234,885	39,064	195,821
	Investing activities	(822,053)	457,542	(364,511)
	Financing activities	442,916	-	442,916
Statement of cash flows (year to date)				
	Operating activities	(3,493,104)	1,066,489	(2,426,615)
	Investing activities	2,622,082	345,596	2,276,486
	Financing activities	442,916	471,000	(28,084)
2009 Statement of operations and loss (year to date)				
	Net loss	(787,403)	(578,990)	(208,413)
	Net loss per share	(0.014)	(0.010)	0.004
2009 Statement of cash flows (3 months)				
	Operating activities	260,479	132,393	128,086
2009 Statement of cash flows (year to date)				
	Operating activities	(699,663)	1,634,763	(2,334,426)
	Cash, beginning	2,496,137	161,712	2,334,425

Certain financial statement classifications and presentation were also amended to conform with the annual audited financial statements.

## 3. SHORT -TERM INVESTMENTS

	30/09/2010	31/12/2009
	<b>Restated</b>	
	<b>(note 2)</b>	
Short term investments	254,670	242,332

Short-term investments are comprised of marketable securities of \$40,240 (2009 - \$26,095 guaranteed investment certificates with a principal amount of \$209,985 (2009 - \$209,985) chartered bank with effective interest rates of 1.85% (2009 - 1.85%) maturing June 9, 2010. Interest is received on maturity.

The Company has pledged short term investments with its bank as collateral for a \$200,000 overdraft facility. This facility is payable on demand and bears interest at the bank's overdraft borrowing rate of bank prime plus 0.5%.

#### 4. PROPERTY AND EQUIPMENT

September 30, 2010	Accumulated		
	Cost	Depletion &	Net Book
		Amortization	Value
<i>Restated</i>	<i>Restated</i>	<i>Restated</i>	
Oil and Gas Property and Equipment	13,492,221	3,675,756	9,816,465
Coal Gasification Leases	49,555	-	49,555
Computers and Equipment	25,906	15,976	9,929
Compressor and Metering Stations	1,135,989	-	1,135,989
	<u>14,703,670</u>	<u>3,691,732</u>	<u>11,011,938</u>

December 31, 2009	Accumulated		
	Cost	Depletion &	Net Book
		Amortization	Value
Oil and Gas Property and Equipment	18,322,346	3,340,943	14,981,403
Coal Gasification Leases	49,555	-	49,555
Computers and Equipment	43,637	20,196	23,441
Compressor and Metering Stations	1,114,388	-	1,114,388
	<u>19,529,926</u>	<u>3,361,139</u>	<u>16,168,787</u>

Depletion of petroleum and natural gas properties is determined using the unit of product method based upon proved reserves. No administrative expenses have been capitalized to property and equipment. As at quarter end, costs amounting to \$5,402,608 (2009 - \$5,298, that were incurred on unproven properties have been excluded from costs subject to depletion.

The Company applied the ceiling test to its capitalized assets at December 31, 2009, and previous year ends, determining that there was no impairment of costs requiring a write-down.

In May 2010, the Company sold a royalty interest on certain of its Lloydminster properties. The royalty holders will receive an aggregate of 3% of future oil revenues. The gross cash proceeds of \$600,000 were recorded as a reduction of Oil and Gas Property and Equipment.

In August 2010, the Company sold a two thirds interest in certain of its Lloydminster properties for \$2,933,333.

The sale proceeds consisted of cash of \$489,497 with the balance of consideration being purchaser's assumption of certain of the Company's accounts payable.

As the sale represented a greater than 20% change in the depletion rate, the relative net book value of the assets sold and retained was calculated based upon estimated future reserves and the Oil and Gas Property and Equipment were reduced accordingly; resulting in a net \$1,580,690. Upon closing the purchaser became the operator of the properties and the Company entered into agreements regarding its future operating cost obligations of the properties.

## 5. ASSET RETIREMENT OBLIGATION

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

	30-Sep-10	31-Dec-09
	<i>Restated</i>	
Asset Retirement Obligation, beginning of year	1,064,855	524,539
Liabilities Incurred	-	520,749
Liability Decrease (on Sale)	- 349,473	
Accretion Expense	55,019	41,097
Revisions in estimated cash flows	- -	21,530
Asset Retirement Obligation, end of year	770,401	1,064,855

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 \$1,051,495. 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 2010 and 2024.

In August 2010, the Company sold a two thirds interest in its' Lloydminster properties. The asset retirement obligation was adjusted based on the new projected liability.

## 6. CONVERTIBLE DEBENTURES

On November 6, 2009, the Company issued convertible debentures in the amount of \$497,000 maturing on November 6, 2012 and bearing interest at an annual rate of 10%, payable annually on the yearly 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 a conversion price of \$0.15. After one year, the debentures are redeemable at the option of the Company at an amount equal to 105% of the face value of the debenture, plus any accrued interest to that point. The maximum aggregate principal amount of convertible debentures authorized under the Company's Trust Indenture is \$3,000,000.

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 equity component reflects the equity value of the conversion option embedded in the convertible debentures. The conversion option was valued using the Black Scholes pricing model with the following assumptions: exercise price of \$.15; expected volatility of 1.22; risk free rate of 1.3% and life of 3 years. The difference between the proceeds of the issued convertible debentures and the fair value of the equity component assigned to the liability.

**6. CONVERTIBLE DEBENTURES (continued)**

Total proceeds of convertible debenture		497,000
Value of equity component	-	230,547
Financing costs of liability component	-	45,714
Value of liability component		220,739

For the year to date September 30, 2010 the total accretion expense related to the liability component of the convertible debenture was \$46,000 and amortization of deferred debenture costs amounted to \$13,000.

	30/09/2010	31/12/2009
	<i>Restated</i>	
Balance, beginning of year	231,734	354,500
Repayment of principal		(354,500)
Issuance of convertible debenture		220,739
Accretion expense	46,000	9,273
Amortization of deferred costs	13,000	1,722
Balance, end of year	290,734	231,734

## 7. EQUITY INSTRUMENTS

### (a) Authorized

The authorized share capital of the Company is as follows:

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

### (b) Issued

The issued share capital is as follows:

	Nine Months Ended September 30 2010 <i>Restated</i>		Twelve Months Ended December 31 2009	
	Shares	Amount	Shares	Amount
<b>Common shares</b>				
Balance, beginning of year	65,391,626	9,101,999	48,140,126	9,277,763
Issued as flow-through units	2,525,000	209,201	17,251,500	1,524,587
Issued as non flow-through units	1,825,000	177,937		
Share issue costs net of tax		- 49,332		- 191,658
Tax effect of flow-through shares		(558,219)		(1,508,693)
<b>Balance, end of year</b>	<b>69,741,626</b>	<b>8,881,586</b>	<b>65,391,626</b>	<b>9,101,999</b>
<b>Warrants</b>				
Balance, beginning of year	15,661,917	2,124,701	15,097,863	2,368,247
Issued as flow-through units	1,262,500	42,799	8,625,750	404,226
Issued as non flow-through units	912,500	41,063		
Issued as agent warrants	30,000	1,017	895,480	43,952
Warrants expired	- 10,798,617	- 81,223	- 8,957,176	- 691,724
<b>Balance, end of year</b>	<b>7,068,300</b>	<b>2,128,357</b>	<b>15,661,917</b>	<b>2,124,701</b>
<b>Total equity instruments</b>		<b>11,009,943</b>		<b>11,226,700</b>

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 expenditure of \$1,928,813 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 2010.

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

## 7. EQUITY INSTRUMENTS (continued)

Period ended	30/09/2010	31/12/2009
	<i>Restated</i>	
Risk free interest rate	1.22-1.26%	.51% - .69%
Expected life	1.5-2	2
Expected volatility	101%	95% - 101%
Expected dividend	0%	0%

### c) Private placements

On February 4, 2010, the Company issued on a private placement basis, 1,825,000 units of the Company at \$.12 per share for gross proceeds of \$219,000. Each unit consists of one Class A non flow-through common share and one-half share purchase warrant. Each share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$.14. The purchase warrants expire on February 3, 2012.

On March 15, 2010, the Company issued on a private placement basis, 2,525,000 units of the Company at \$.10 per share for gross proceeds of \$252,000. Each unit consists of one Class A flow-through common share and one-half share purchase warrant. Each share purchase warrant entitles the holder to purchase one regular Class A common share of the Company at \$.11. The purchase warrants expire in September 2011.

### (d) Stock Options

The Company has a Stock Option Plan for the issuance of Class A common shares to employees, officers, directors and other key personnel based on the approval of the Board of Directors and regulatory authorities. The total number of authorized common shares allocated to and made available to such participants under the plan shall not exceed 10% of the issued and outstanding Class A common shares at the time of the granting of the option. Options vest at the determination of the Board of Directors at the time of granting and expire after five years. The Company's stock option plan allows them to grant options with an exercise price not less than the Discounted Market Price on the date of grant as defined by the TSX Venture Exchange Inc.

As at September 30, 2010 the Company has the following stock options outstanding:

	Number of options	Option Price Range per share	Weighted Average exercise price
Options outstanding, Dec. 31, 2009	5,626,400	\$0.10-0.60	\$0.31
Granted	1,425,000	\$0.10	\$0.10
Options expired	-	403,900	\$0.10-0.45
Options exercised	-	-	-
Options outstanding, September 30, 2010	6,647,500	\$0.10-0.60	\$0.27

Options granted during the year vested immediately.

7. EQUITY INSTRUMENTS (continued)

The following table summarizes the stock options outstanding at September 30, 201

Options Outstanding	Option Price	Weighed Average		Weighted Average	
		Exercise Price	Remaining Life	Options Exercisable	Exercise Price of Options Exercisable
280,000	0.40	0.40	0.40	280,000	0.40
85,000	0.25	0.25	1.20	85,000	0.25
1,525,000	0.60	0.60	2.25	1,525,000	0.60
657,500	0.32	0.32	2.32	657,500	0.32
1,035,000	0.20	0.20	2.98	1,035,000	0.20
1,055,000	0.10	0.10	3.47	1,055,000	0.10
585,000	0.125	0.125	4.07	585,000	0.125
1,425,000	0.10	0.10	4.42	1,425,000	0.10
6,647,500		0.27		6,647,500	0.27

As at December 31, 2009 the Company has the following stock options outstanding:

	Number of options	Option Price Range per share	Weighted Average exercise price
Options outstanding, Dec 31, 2008	3,922,500	\$0.20-0.60	\$0.41
Granted	1,863,900	\$0.10-0.13	\$0.11
Options expired	- 160,000	\$0.10-0.40	\$0.34
Options outstanding, December 31, 2009	5,626,400	\$0.10-0.60	\$0.31

Options granted during the year vested immediately.

## 7. EQUITY INSTRUMENTS (continued)

The following table summarizes the stock options outstanding at December 31, 2009

Options Outstanding	Option Price	Weighed Average		Weighted Average	
		Excursive Price	Remaining Life	Options Exercisable	Exercise Price of Options Exercisable
180,000	0.45	0.45	0.08	180,000	0.45
280,000	0.40	0.40	1.06	280,000	0.40
115,000	0.25	0.25	1.95	115,000	0.25
1,495,000	0.60	0.60	3.00	1,495,000	0.60
657,500	0.32	0.32	3.07	657,500	0.32
1,035,000	0.20	0.20	3.64	1,035,000	0.20
1,078,900	0.20	0.10	4.24	1,078,900	0.10
785,000	0.20	0.13	4.73	785,000	0.13
5,626,400	0.31	0.31	-	5,626,400	0.31

During the year, under the fair-value-based method, \$69,739 (2009 - \$115,245) 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:

Period Ended	30/09/2010	31/12/2009
Risk Free interest rate	2.07%	1.8% - 2.6%
Expected life (years)	5	5
Expected volatility	100%	95% - 101%
Expected dividend yield	0%	0%

### (e) Dividends

Under the terms of the convertible debenture agreement (Note 6) the Company will 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 September 30, 2010 the Company was in arrears regarding the payment of interest on the convertible debentures.

### (f) Per share amounts

Per share calculations are based on the weighted average number of Class A common shares outstanding during the quarter of 69,741,626 (2009 - 51,157,248) and 68,494,403 for the year to date (2009 - 56,243,071). For 2010 and 2009, diluted loss per share is consistent with basic loss per share as the effect of the debenture conversions and option exercises are anti-dilutive.

**7. EQUITY INSTRUMENTS (continued)**

**(g) Escrow Shares**

As of the quarter end there were no common shares held in escrow.

**(h) Equity portion of convertible debenture**

Balance, beginning of year	204,270
Amount repaid during the period	-
<u>Balance, end</u>	<u>204,270</u>

**8. CONTRIBUTED SURPLUS**

	Sept. 30 2010	Dec. 31 2009
	<i>Restated</i>	
<u>Balance, beginning of year</u>	<u>2,805,301</u>	<u>1,978,390</u>
Stock based compensation	69,739	115,245
Expiration of conversion option of convertible debt	-	19,942
Warrants expired, recorded	81,223	691,724
<u>Balance, end of quarter/year</u>	<u>2,956,263</u>	<u>2,805,301</u>

## 9. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

The Company has a joint operating agreement with Desoto Resources Limited whereby it has 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 Sept. 30, 2010, the three wells representing a cost of \$1,449,721 (2009 - \$1,449,721) had 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 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 were to be incurred 100% by the Company. As at Sept. 30, 2010 all five wells had 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 with Nordic Management Ltd. for various consulting services. Nordic Management Ltd. receives \$13,333 per month for management services, and \$7,500 per month for investor relations and corporate secretary services. The contract expires November 14, 2012. Certain of the Company's directors and officers contract with Nordic Management Ltd. These transactions are in the normal course of operations and are measured at the exchange amount (the amount of consideration established and agreed to by the related parties).

The Company has an office rental agreement with a Company controlled by an officer of the Company for \$550/month. To date costs of \$4,950 have been incurred.

In September 2010, the Company provided field equipment with a book value of \$9,600 to a director as a portion of their annual compensation.

In July 2010 the Company acquired the lands and royalty rights known as the "Arrowwood Property" from Western Warner Oils Ltd. for \$80,000.

All related party transactions were at the exchange amount, which is the amount of consideration agreed upon between the two parties.

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

**9. RELATED PARTY TRANSACTIONS (continued)**

	Sept. 30 2010	Dec 31 2009
	<i>Restated</i>	
Amounts included in accounts receivable	427,198	196,491
Amounts included in accounts payable and accrued liabilities	36,298	28,358

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.

**10. COMMITMENTS**

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

(a) Pursuant to the flow-through Class A common shares issued, the Company is committed to spending \$1,928,313 on qualified expenditures by December 31, 2010. At the financial statement date the Company had spent \$657,315.

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

(c) The Company has entered into contractual agreements for the operation of certain wells and an equipment and tank lease in Lloydminster.

## **11. CONTINGENCIES**

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

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

## **12. FINANCIAL RISK MANAGEMENT**

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

### **(a) Commodity Price Risk**

The Company will be subject to commodity price risk for the delivery of natural gas and crude oil. The Company may manage and minimize the risk by entering into various joint operating agreements with sub-participants. As at September 30, 2010, the Company has not entered into any commodity contracts.

### **(b) Credit Risk**

Substantially all of the Company's accounts receivable are from working interest partners in the oil and gas industry and, as such, the Company is exposed to all risks associated with that industry. At September 30, 2010 substantially all of the Company's cash was held at one financial institution and, as such the Company is exposed to concentration of credit risk.

## 12. FINANCIAL RISK MANAGEMENT (continued)

### c) Fair Value of Financial Instruments

The carrying values of current financial assets and liabilities including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, and convertible debentures, approximates their fair values due to the short-term nature of these instruments. Under the fair value hierarchy the cash and marketable securities, qualify as Level 1 assets for disclosure purposes. The Company has no items which qualify as Level 2, or Level 3 for disclosure purposes.

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

### d) Liquidity Risk

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

As at September 30, 2010 the Company had a working capital deficit of \$1,224,412 (2009 - \$3,746,201).

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

### e) Commodity Price Risk Management

While the Company is exposed to business risk associated with fluctuations in the price of crude oil and natural gas, the Company does not hold financial instruments whose fair values are susceptible to variability resulting from changes in the price of crude or natural gas.

### 13. CAPITAL MANAGEMENT

The Company's objective is to maintain access to sources of capital with which to finance 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 of the underlying investments. The Company will balance 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 shares, or redeem any other debentures of the Company at a time that the Company is in arrears in payment of any principal or interest on the debentures. At September 30, 2010, the Company was not in arrears in payment of any principal or interest on convertible debentures.

The total capital as at the latest reporting dates was calculated as follows:

	30/09/2010		31/12/2009	
	Carrying Amount	As a % of capital	Carrying Amount	As a % of capital
Convertible debentures	290,734	3.9%	231,734	2.4%
Shareholders' equity	7,240,487	96.1%	9,454,438	97.6%
Total Capital	7,531,221	100%	9,686,172	100%

### 14. 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 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.

#### 14. INDEMNITIES AND GUARANTEES (continued)

(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 agreement 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.

#### 15. INCOME TAXES

(a) Income tax expense differs from that which would be expected from applying the statutory Canadian federal and provincial 2010 income tax rates of 28.94% to loss before income taxes as follows:

	2010	2009
Loss before income taxes	- 2,975,030	- 1,005,005
Combined federal and provincial tax rate	28.94%	30.18%
Expected income tax (recovery)	- 860,974	- 303,311
Increase(decrease) resulting from:		
Tax rate change	29,417	- 170,673
Non-deductible expenses	34,040	41,263
Other	- 29,357	6,706
Provision for income taxes (recovery)	- 826,874	- 426,015

## 16. SUBSEQUENT EVENTS

In October 2010, the Company entered into an agreement providing for an Equity Line Facility (ELF). Under the terms of the ELF the Company can conditionally access \$10 million of cash during a 36-month period, through the issuance of common shares. The agreement is subject to certain conditions including regulatory acceptance and approval .

In the final week of November 2010, the Company made a debenture payment of \$53,104. The debenture holders were paid all outstanding interest owed.

On November 23, 2010, the Company issued the second closing on a private placement basis of the aggregate offering 7,009,997 flow through units of the Company at \$0.075 per unit for gross proceeds of \$525,750. Each unit consists of a 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 \$0.10. The purchase warrants expire 18 months after their date of issue.

On December 12, 2010, the Company granted 1,725,000 stock options to officers, directors and consultants. The options vested immediately and bear a strike price of \$0.10 and a five year life.

On December 17, 2010, the Company issued the second closing on a private placement basis of the aggregate offering of 10,000,210 flow through units of the Company at \$0.09 per unit for gross proceeds of \$900,019. Each unit consists of a 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 \$0.12. The purchase warrants expire 18 months after their date of issue.

In the first two months of 2011, the Company settled outstanding debt through the issuance of 1,137,832 and 997,929 class A common shares priced at \$0.175 and \$0.12 to settle outstanding debt agreements with arm's length parties in the aggregate amount of \$199,120 and \$117,351 respectively.

**17. CORPORATE OFFICERS AND BOARD OF DIRECTORS**

Donald P Benson (1)  
Chairman & Chief Executive Officer

Keith Peterson  
Treasurer & Director

Michael Mann, Geologist (1)  
Director

Barry Palka (1)  
CFO (Acting) & Director

Brahm Silverstone, Geophysicist  
Director

Donald Bain  
Corporate Secretary

(1) is a member of audit committee

**18. CORPORATE INFORMATION**

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Fax: 204-897-7154

GENERAL INFORMATION:

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Fiscal Year-End: December 31  
Transfer Agent: CIBC Mellon Trust, Winnipeg  
Auditor: Meyers Norris Penny  
Reporting Jurisdictions: Alberta; Manitoba; Saskatchewan; British Columbia