NORDIC
OIL AND GAS LTD

Annual Report 2003

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CORPORATE PROFILE

Incorporated in 2000, Nordic Oil and Gas Ltd. is an independent oil and gas company engaged in the exploration, development and production of oil, natural gas and Natural Gas Liquids (NGLS). The Company currently has interests in natural gas and Natural Gas Liquids production at Joffre, Alberta, approximately 30 kilometres east of Red Deer. 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.

Nordic Oil and Gas will continue to increase its reserves and production base through land acquisitions, exploratory and development drilling, along with corporate mergers and acquisitions. The Company's strategy is to focus on properties it believes will provide long-term reserves, which will generate revenue and cash flow in the near term.

Nordic management pledges to concentrate on low risk development drilling aimed at increasing production and reserves in core areas. In addition, the Company will also continue to look for opportunities to further strengthen its position in existing core areas and will pursue strategic acquisitions that will contribute to the overall growth and development of the Company and enhance shareholder value.

Nordic Oil and Gas Ltd. trades on the TSX Venture Exchange under the symbol NOG.

2003 CORPORATE HIGHLIGHTS AT-A-GLANCE

First Quarter

- Nordic Oil and Gas obtained its first well license to commence drilling for natural gas on its Joffre property.
- The Company acquired a significant interest in certain lands in the Joffre area, along with options to purchase the Petroleum & natural gas rights to an additional 480 acres of land adjacent to its existing property.
- The Company completed the processing of its initial seismic survey in Preeceville.

Second Quarter

- Nordic Oil and Gas acquired an 80% interest in a Special Exploration Permit for the petroleum and natural gas rights covering approximately 65,000 acres in Preeceville.
- The Company commenced drilling its first natural gas well on its property identified as 3-18-38-24 in Joffre.
- An agreement was signed to undertake the shooting of a further 16 kilometres of seismic in Preeceville.

Third Quarter

- Nordic completed testing of its first natural gas well at Joffre, Alberta. The well flow tested at 600 MCF per day. The well was subsequently tied-in later in the quarter and commenced production in October.
- The Company completed additional seismic surveys on its property in Preeceville, Saskatchewan and the results were encouraging. Plans were announced to drill an exploration well on these Preeceville lands later in the year.

Fourth Quarter

- The Company commenced testing of its second natural gas well at Joffre, which subsequently tested at 650 MCF per day.
- Surveying of the pipeline right of way for the well was completed, and the pipeline was installed shortly thereafter.
- The Company received notification from Western Warner Oils Ltd., the operator in the Preeceville area, that well licenses had been issued for the initial three wells to be drilled there. The first well was drilled in December 2003 and it is currently being tested.
- The Company acquired an 80% interest in a Special Exploration Permit for the Petroleum & Natural Gas Rights covering approximately 46,000 gross acres in Preeceville. This new permit brings the Company's total holdings in the area to 137,780 acres.
- Two successful Private Placement financings were completed – the first in the amount of $400,000 through the sale of 1 million Common Shares of the Company on a flow-through basis, at a price of $0.40 per share, and the second in the amount of $170,000 through the sale of 425,000 Common Shares of the Company, also at a price of $0.40 per share.

Subsequent to Year-End

- The well drilled in October at Joffre was placed on production. This well brought the Company's daily production to over 1 million cubic feet per day.
- The Company announced that it had commenced drilling a well at Joffre in search of coal bed methane – natural gas produced from coal seams.

CHAIRMAN'S MESSAGE TO SHAREHOLDERS

Throughout 2003, Nordic Oil and Gas Ltd. successfully implemented its business strategies en route to transforming itself into a recognized natural gas explorer and producer. During the year, we drilled our first well at Joffre, and production has exceeded our expectations – currently at 1 million cubic feet per day (MMCFD). This exploration success, when combined with an aggressive land acquisition program, an active seismic survey program and the significant purchase of Special Exploration Permits at Joffre and Preeceville, has paved the way for 2004 to be a landmark year for the Company.

From a financial perspective, the year was highlighted by strong revenue growth over the previous year, which translated into positive net earnings and earnings per share for the first time in our brief history. In addition, we strengthened our overall financial position thanks to two successful private placement financings.

SUCCESSFUL PRIVATE PLACEMENT FINANCING

During the year, we successfully completed two private placements. The first comprised the sale of one million newly issued common shares of the Company, at a price of $0.40 per share. It was subscribed solely by a Canadian institutional investor. A total of $400,000 in gross proceeds was raised through this transaction.

Shortly thereafter, we completed a second private placement financing, also to a single Canadian institutional investor. A total of $170,000 in gross proceeds was raised via this transaction, through the sale of 425,000 Common Shares of the Company, issued on a flow-through basis, also at a price of $0.40 per share.

Wellington West Capital Inc. of Winnipeg acted as placement agents on both transactions and was paid a commission fee of 7%. In addition, they received 10% non-flow-through broker warrants as part of the deal.

This financing represents an important element in the Company's growth and development plans. It has already enabled us to build on our recent successes, accelerating the timetable for advancing our development and drilling programs in Joffre, Alberta and Preeceville, Saskatchewan. A portion of the funding was used to drill our first well in Saskatchewan, with additional funds being targeted for our next well in Alberta and seismic drilling activity later in the year at Preeceville.

STRONG FINANCIAL RESULTS

Revenue for the year ended December 31, 2003 totaled $479,261, up significantly from the $28,113 reported for 2002. The year's total included $419,261 in oil and gas revenue, compared to no revenue during 2002. As a result of this strong growth in revenue, net income for the year 2003 was $101,090, compared to a net loss of $63,359 for the previous year. This translated into positive earnings per share (EPS) of $0.0121 (basic) and $0.0119 (fully diluted) for 2003, versus losses of $0.0145 and $0.0141 respectively in 2002.

2003 AND YEAR-TO-DATE HIGHLIGHTS

The strong financial results for the year 2003 are a direct result of the active drilling program the Company undertook in Joffre, Alberta. Overall, the year was highlighted by the following:

- The acquisition of a significant interest in certain lands in the Joffre area, along with options to purchase the Petroleum & Natural Gas (P&NG) rights to an additional 480 acres of land adjacent to our existing property;
- The acquisition of an 80% interest in a Special Exploration Permit for the P&NG rights covering approximately 65,000 acres in Preeceville;
- The commencement of drilling of our first natural gas well in Joffre in May, which was tested later in the Fall at 600 MCF per day; it was subsequently tied-in and production commenced in October;
- Seismic work was completed in Preeceville, with plans to drill an exploration well on these lands;
- Western Warner Oils Ltd., the operator in the Preeceville area, had well licenses issued for the initial three wells to be drilled there, the first of which was drilled in December;
- The acquisition of an 80% interest in a Special Exploration Permit for the Petroleum & Natural Gas rights covering approximately 46,000 gross acres in Preeceville, bringing our total holdings in the area to 137,780 acres.

We have continued our steady progress on all fronts thus far in 2004, and at the time of writing, we have undertaken, or expect to undertake the following initiatives by year-end:

- We have licensed another well in Joffre – 3-24-3825 W 4 – in search of coal bed methane – natural gas produced from coal seams. We have commenced drilling early in the fourth quarter. We have an interest in 10 sections of land, which we believe contain coal seams at a depth of approximately 500 metres. It is our belief that these wells are capable of producing up to 300,000 cubic feet per day;

- We are currently in the midst of licensing an additional 37 kilometers of seismic. We anticipate that the seismic surveys will be conducted in late November once freeze-up has occurred;
- We currently are pooling with neighbouring companies to fill-out spacing units in Joffre in two sections in which we own a portion of the rights; we expect to fill-out the spacing units as we work toward drilling two new wells in the last quarter of 2004 or in the first quarter in 2005.

LITIGATION OVER LAND LEASES

In June 2004, the Company became embroiled in a dispute over the validity of Nordic Oil and Gas' freehold land leases in Joffre. Negotiations to resolve the matter proved unsuccessful, resulting in the Company initiating legal action against the third party. Although the legal problems that we are currently engulfed in with respect to our freehold land leases in Joffre have delayed our plans to develop the land in question, we remain optimistic that this matter will be resolved in our favour, and when it is, we will be in a strong position to move forward at a greater pace with our drilling and development programs in Joffre.

CORE STRENGTHS

In last year's Annual Report, we stated that in our view, our core strengths put us in a strong position to capitalize on the opportunities that lie before us. One of our most significant strengths is the fact that we have high percentage interests in large, core areas. Our business plan is designed to capitalize on the exploration and development of prospects targeting high-quality natural gas reserves in Alberta and Saskatchewan, augmented by growth-oriented, strategic acquisitions. The natural gas reserves in Joffre are well proven and the history in the region is both long and successful. In addition, we have every reason to believe that there is an abundance of both oil and gas reserves in Preeceville.

We feel this strategy is sound and credible and will allow us to create significant shareholder value over both the short- and long-terms.

To ensure that we capitalize on these core strengths, we have developed key strategic plans, goals and objectives. The Company has a focused platform for growth that will see us concentrate on low risk development drilling to increase production and reserves in our core areas in Joffre. In addition, Nordic Oil and Gas is unique in today's climate in that we have a true exploration program underway in Preeceville. We feel this will give us an edge on many of the other players in the field who are skipping exploration activities entirely.

We intend to focus our activities in these specific operating areas, maintaining a high working interest in both regions, thereby ensuring that we are able to best manage all aspects of our operations. Strategies will include utilizing the latest in industry technology, concentrating on these low-risk initiatives.

EXCITING OUTLOOK

Nordic's business plan and strategies for growth are supported by favourable commodity prices and projected strong demand for natural gas during the coming years. The natural gas supply/demand ratio in North America is definitely on the upswing. The industry has recovered from the lows of 2001 and early 2002, and demand is certainly growing.

However, pressure is being applied to maintain current production levels. Demand for natural gas in North America is projected to increase 26% over the next several years, to 86 billion cubic feet per day (bcf/d) in 2012 from 68 billion bcf/d currently consumed.

We feel that this represents an outstanding opportunity for companies like Nordic Oil and Gas, who are poised to develop gas reserves both in the short- and long-term. This is one of the reasons why we are so optimistic about our properties near Joffre and Preeceville.

The overall outlook for Nordic Oil and Gas is outstanding. We have large land positions in two highly desirable areas, which have the potential to produce substantial volumes of natural gas. When combined with a sound exploration and, development program and our increased drilling activity, we are well positioned to increase our revenues this year and I expect that we will post even stronger operational and financial results in 2005.

The Company's experienced management and technical teams, its solid base of quality assets and our sound business plan combine to create a strong foundation for growth now, and into the future.

Most importantly, on behalf of the Board of Directors, I would like to extend my thanks and gratitude to our shareholders for their continued support. We look forward with much optimism to the remainder of 2004.

Sincerely,

Donald P. Benson
Chairman, President & CEO

AREAS OF OPERATION

Nordic Oil and Gas' operations are focused in west central Alberta, one of Canada's primary areas for oil and gas exploration, and east-central Saskatchewan. Alberta accounts for just over 80 per cent of the natural gas produced in Canada – itself the world's third-largest supplier of natural gas – and exports about three-quarters of its production outside the province's boundaries. About half of the five trillion cubic feet of gas produced each year in Alberta is exported to the United States, and about one-quarter flows to other points in Canada. The east-central region of Saskatchewan is a shallow, cost-effective area where it is believed that enormous quantities of oil are trapped by the "Prairie evaporate salt collapse edge".

THE JOFFRE REGION

The Joffre region in Alberta is one of Western Canada's most active, having been explored and produced for many years. Located approximately 30 kilometres northeast of Red Deer, the Nordic Oil and Gas property is comprised of approximately 4,480 acres in one of the richest hydrocarbon regions of the province. A proven oil and gas region, Joffre consists of existing natural gas production along with a significant land base with strong development opportunities.

Several successful and high profile Canadian oil and gas exploration companies are in the area. A few kilometers south west of the Nordic Oil and Gas lands in Joffre, a pool produced more than 1 billion cubic feet of natural gas from the Belly River formation. The Company is confident that it can duplicate this success, which would result in significant contribution to the "bottom line".

Nordic began 2003 with great optimism for its initial drilling programs at Joffre. However, prior to the start of our drilling program, the Company undertook two major transactions early in the year. First, it secured an option to acquire 640 acres adjoining its existing land in Joffre, and secondly, it secured an additional 42.5% interest in a well, and associated lands, also in Joffre. This transaction brought the Company's total interest in the section to 85%.

Nordic obtained its first well license in the Spring, allowing it to commence drilling on its Joffre property identified as 3-18-38-24. Work began in May and by early June testing of this first natural gas well was completed and it tested at 600 thousand cubic feet per day. This well was tied-in in late September and went into production effective October 1. The production from this well has exceeded expectations and now has daily production of over 1 million cubic feet per day.

A second well license was obtained in the third quarter of 2003, which led to the drilling of a third well in Joffre.

In addition, Nordic controls a profitable pipeline river crossing, which currently is tied to a medium pressure pipeline system. The gas transmission system is especially significant given that the Alberta government regulates the number of pipeline crossings in an area. This means that any gas producers north of the Red Deer River that use the Nordic river crossing must pay the Company applicable transportation fees.

The Company intends at some point to invest further in this opportunity by enhancing its marketing initiatives and upgrading the existing equipment. Nordic also has the ability to twin the line across the Red Deer River, thereby significantly increasing revenue potential.

THE PREECEVILLE REGION

The Preeceville region is, in the Company's view, an area of great promise and potential.

The area is a shallow, cost-effective target, and for a modest expenditure, Nordic has the opportunity to drill for a world-class gas target.

The Company's initial activities began in late 2002, when it completed a seismic survey of 14 kilometres of land in the Preeceville area. The processed seismic identified five distinct formations within the Nordic Oil and Gas lands.

In April 2003, the Company obtained a Further Special Exploration Permit in Preeceville, bringing the total land base in the area to nearly four townships in a 143 square mile radius. This acquisition led Nordic to undertake the shooting of a further 16 kilometres of 2-D seismic in Preeceville, and the results look very promising.

Armed with this encouraging data, the Company licensed three new wells in Preeceville. In addition, Nordic will continue to undertake further seismic activities in Preeceville – 37 kilometres in total – in the fourth quarter of 2004.

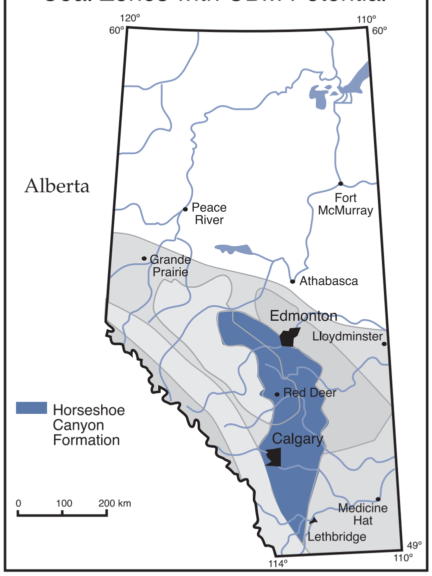
In November 2003, the Company received notice from Western Warner Oils Ltd., the operator in the Preeceville area that well licenses were issued for the drilling of the initial three wells in the region. Western Warner has a 20% carried interest in the first five wells drilled on the Nordic Oil and Gas lands in Preeceville.

As the year neared completion, the Company acquired an 80% interest in a Special Exploration Permit for the petroleum & natural gas rights covering approximately 46,000 gross acres in Preeceville, bringing its total holdings in the area to 137,780 acres.

LOOKING AHEAD

At the time of writing, the Company has some very exciting initiatives underway or planned for the balance of the year.

Coal Zones with CBM Potential



Of particular note is the opportunity for the Company to drill a well in search of coal bed methane in Joffre. Coal bed methane is natural gas produced from coal seams and there is potential for tremendous upside in this area. The Company has an interest in 10 sections of land, which it believes contains coal seams at a depth of approximately 500 metres. It is felt that these seams are capable of producing up to 300,000 cubic feet per day. There is much excitement within the industry about unlocking Alberta's coal bed methane potential and Nordic Oil and Gas wants to be front and centre in capitalizing on this opportunity.

Nordic is continuing to identify the enormous potential of coal bed methane(CBM) resources on its existing lands. Nordic has a strategic advantage in pursuing this resource play as it can integrate CBM development with its conventional shallow gas infrastructure and drilling programs. Due to geological similarities, conventional drilling helps identify CBM potential and, when under commercial development, it is expected that additional conventional gas will be found.

Nordic and its associated companies have been investigating CBM for over ten years. In the U.S.A., CBM accounts for over 10% of total gas production. In Joffre, where Nordic has six plus complete sections, the gas in place is estimated at 5 BCF per section.The horseshoe canyon formation which extends over Nordics lands contains dry gas thus eliminating the need to draw off water before production can begin.

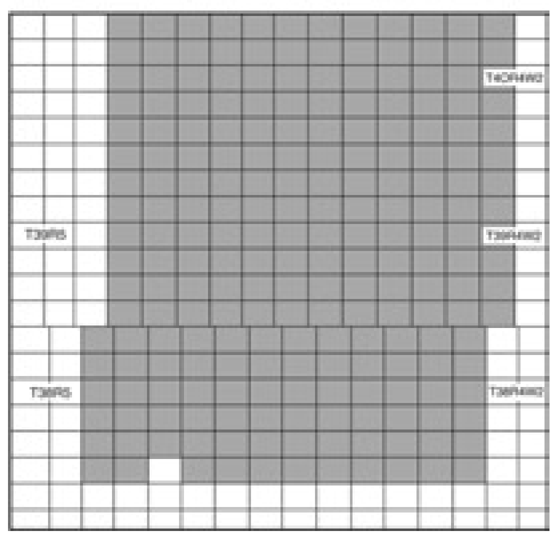
The Company also has licensed a new well at Joffre – 3-24-38-25 West of 4 – and drilling began early in the fourth quarter. Also at Joffre, Nordic currently is pooling with neighbouring companies to fill-out spacing units in two sections in which it owns a portion of the rights – a spacing unit is the amount of land required in order to drill a well. The Company expects to fill out the spacing units as it works toward drilling two new wells in the last quarter of 2004 or the first quarter in 2005.

The Company's goal is to maintain a base of land that will allow it to step out from producing properties to realize each area's full potential, and to continuously generate new exploration prospects. Nordic's land program creates the foundation for maintaining an inventory of drillable prospects.

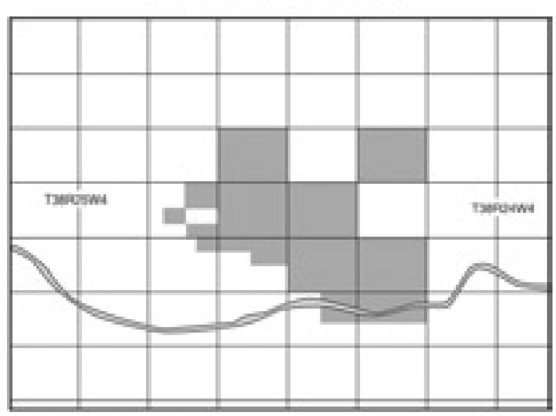
Modern technology permits the economic finding and development of smaller pools than in the past, creating sufficient new scope for producers such as Nordic Oil and Gas to identify and produce new reserves. This focus creates several significant advantages for Nordic. The most important is reduction of exploration risks and improvement in drilling success rates, brought about by the knowledge of our experienced teams of technical and field personnel of the regions' geological and operating characteristics.

The Company is focused on taking advantage of the vast technical and operating expertise it has to assess the information that it gathers in its core areas of operation in evaluating potential prospects, identify potential acquisitions and operate existing properties in an efficient and cost-effective manner.

PREECEVILLE CORE AREA



JOFFRE CORE AREA



2003 MANAGEMENT'S DISCUSSION AND ANALYSIS

DESCRIPTION OF BUSINESS

Nordic Oil and Gas Ltd. is an oil and gas exploration and development company headquartered in Winnipeg, Manitoba, Canada. It is listed on the TSX Venture Exchange under the symbol: NOG.

The Company currently has interests in natural gas and natural gas Liquids production at Joffre, Alberta, approximately 30 kilometres east of Red Deer. 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.

DISCUSSION OF OPERATIONS AND FINANCIAL EVENTS

During the first quarter of 2003, Nordic Oil and Gas obtained its first well license to commence drilling for natural gas on its Joffre property. During the same period, the Company acquired a significant interest in certain lands in the Joffre area, along with options to purchase the petroleum & natural gas rights to an additional 480 acres of land adjacent to its existing property. The Company also completed the processing of its initial seismic survey in Preeceville.

During the second quarter of 2003, Nordic Oil and Gas acquired an 80% interest in a Special Exploration Permit for the petroleum and natural gas rights covering approximately 65,000 acres in Preeceville. In May, the Company commenced drilling its first natural gas well on its property identified as 3-18-38-24 in Joffre, and in the same month, signed an agreement to undertake the shooting of a further 16 kilometres of seismic in Preeceville.

During the third quarter of 2003, ended September 30, Nordic completed testing of its first natural gas well at Joffre, Alberta. The well flow tested at 600 MCF per day. The well was subsequently tied-in later in the quarter and commenced production in October. Also during the third quarter, the Company completed additional seismic survey on its property in Preeceville, Saskatchewan and the results were encouraging. The Company announced plans to drill an exploration well on these Preeceville lands later in the year.

As the fourth quarter of 2003 began, the Company commenced testing of its second natural gas well at Joffre, which subsequently tested at 650 MCF per day. Later in the quarter, the Company completed the surveying of the pipeline right of way for the well, and the pipeline was installed shortly thereafter. Also in early October, Nordic Oil and Gas received notification from Western Warner Oils, the operator in the Preeceville area, that well licenses had been issued for the initial three wells to be drilled there. The first well was drilled in December 2003 and it is currently being tested. This was followed in December by Nordic acquiring an 80% interest in a Special Exploration Permit for the petroleum & natural gas rights covering approximately 46,000 gross acres in Preeceville. This new permit brings the Company's total holdings in the area to 137,780 acres.

In November, the Company completed two successful Private Placement financings – the first in the amount of $400,000 through the sale of 1 million Common Shares of the Company on a flow-through basis, at a price of $0.40 per share, and the second in the amount of $170,000 through the sale of 425,000 Common Shares of the Company, also at a price of $0.40 per share. Wellington West Capital Inc., an independent investment dealer based in Winnipeg, acted as placement agent on both transactions and was paid a commission fee of 7% of the gross proceeds raised. In addition, Wellington West will receive non-flow-through broker warrants to purchase common shares of the Company at a price of $0.40 per share in an amount equal to 10% of the offering, exercisable for 24 months from the date of issuance. Both transactions closed at the end of November/December 2003.

STRENGTHENING CORPORATE MANAGEMENT & THE BOARD OF DIRECTORS

In May, the Company appointed Mr. Brahm Silverstone to its Board of Directors. A Calgary-based geophysicist, Mr. Silverstone has 30 years' experience in the oil and gas industry, having worked for such international companies as Amoco Petroleum Canada, BP Canada and ConocoPhillips Canada. He holds Master of Science degrees in Solid State Physics and Geophysics.

EVENTS SUBSEQUENT TO THE END OF THE FOURTH QUARTER

Subsequent to the end of the fourth quarter, Nordic Oil and Gas announced in January that it had placed on production the well drilled in October at Joffre. This well brought the Company's daily production to over 1 MCF/D. In March, the Company announced that it was seeking a location in Joffre to drill a well in search of coal bed methane – natural gas produced from coal seams. In June, the Nordic Oil and Gas became embroiled in a dispute over the validity of its freehold land leases in Joffre. Negotiations to resolve the matter proved unsuccessful, resulting in the Company initiating legal action against the third party. Management is confident that the land leases in question are good and valid.

FINANCIAL LIQUIDITY

The Company reported revenue of $479,261 (including $419,261 from oil and gas activities) for the year, compared to only $28,113 for the year 2002.

As a result of this strong growth in revenue, the Company recorded net income of $101,090 for the year ended December 31, 2003, compared to a loss of $63,359 for the previous year. This in turn translated into earnings per share of $0.0121 (basic) and $0.0119 (fully diluted) for the year, versus losses of $0.0145 and $0.0141 respectively during 2002.

As at December 31, 2003, Nordic Oil and Gas had working capital (cash and cash equivalents) of $499,973, compared to $600,650 at December 31, 2002. Cash flow from operating activities totaled $458,667 for 2003 versus a loss of $11,035 in 2002.

Assets at December 31, 2003 totaled $2,645,168, including $1,945,839 in property and equipment; this compares to $1,549,745 in total assets and $903,509 in property and equipment at the end of the prior year.

The deficit at the end of the year totaled $171,754, a substantial improvement over the $272,844 deficit recorded for 2002.

ANALYSIS OF EXPENSES AND DEFERRED COSTS

Total expenses of the year ended December 31, 2003 were $392,080, versus $93,052 for the year ended December 31, 2002. The majority of the increase was attributable to the additional operating costs associated with the exploration and development activities at both the Joffre and Preeceville sites – up $130,000 over last year – increased general and administrative costs ($67,649 in 2003 compared to $32,901 in 2002), and higher management fees for the year ($60,000 in 2003 versus $10,000 in the prior year).

GRANTING OF OPTIONS

During the past year, Nordic Oil and Gas Ltd.'s Board of Directors and shareholders approved the granting of the following stock options to corporate officers, Directors and consultants:

- Donald P. Benson, President & CEO – 200,000 shares **
- Keith Peterson, Board member – 75,000 shares
- Doug McKinnon, Board Member – 75,000 shares *
- Michael Mann, Board Member – 125,000 shares
- Barry Palka, Board Member – 125,000 shares
- Brahm Silverstone, New Board Member – 75,000 shares
- John Garden, Consultant – 50,000 shares
- Mr. McKinnon resigned from the Board during 2003 and his options expired without being vested.

Subsequent to year-end, stock options were extended to the following corporate officers and Directors:

- Donald P. Benson – 40,000 shares
- Keith Peterson – 25,000 shares
- Michael Mann – 25,000 shares
- Barry Palka – 25,000 shares
- Brahm Silverstone – 35,000 shares
- Donald F. Benson, Consultant – 10,000 shares
- Ronald Tilley, Consultant – 50,000 shares

** Mr. Benson exercised his option on 75,000 shares at a price of $0.10 per share in February 2004.

BUSINESS RISKS

The business of exploring, developing, acquiring and producing oil and natural gas reserves is subject to a variety of operational, financial and regulatory risks.

- 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. Nordic Oil and Gas continues to implement its strategy of maximizing current technologies to help reduce risk and increase production.

- Financial Risks – Financial risks include commodity and market fluctuations, interest rates and any rates of applicable currency exchange. Nordic Oil and Gas operates in a competitive environment where a number of outside factors beyond the Company's control can affect the commodity price. 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements seen on the following pages of this Annual Report have been prepared by the management of the Company, which is responsible for their consistency, integrity and objectivity. The Company maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting procedures are high quality, efficient and accurate.

BDO Dunwoody LLP, Chartered Accountants, the independent auditors of the corporation are responsible for auditing the consolidated financial statements contained herein and for giving their opinion thereon.

The following consolidated financial statement of the corporation have been reviewed and approved by the Board of Directors and its Audit Committee.

DONALD P. BENSON
Chairman & CEO

AUDITOR'S REPORT TO SHAREHOLDERS

To the Directors and Shareholders of Nordic Oil and Gas Ltd.

We have audited the balance sheet of Nordic Oil and Gas Ltd. As at December 31, 2003 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003, and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures included herein for the year ended December 31, 2002 were reported on by another firm of Chartered Accountants who issued their report without reservation on May 10, 2003.

BDO Dunwoody LLP

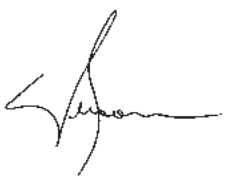
Winnipeg, Canada
May 10, 2004

BDO Dunwoody LLP
Chartered Accountants
Winnipeg, Canada
July 2004

FINANCIAL STATEMENTS
Balance Sheet

For the years ended December 31	**2003**	2002
ASSETS		
CURRENT ASSETS		
Cash	**$ 31,985**	$ 100,650
Short-term investments (Note 1)	**467,988**	500,000
Accounts receivable	**187,723**	35,542
Prepaid expenses	**1**	—
Other current assets	**11,632**	10,044
	699,329	646,236
PROPERTY AND EQUIPMENT (Note 2)	**1,945,839**	903,509
	$2,645,168	$ 1,549,745
LIABILITIES and SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 528,735**	$ 34,879
FUTURE INCOME TAX (Note 3)	**256,000**	—
	784,735	34,879
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	**2,032,187**	1,787,710
Deficit	**(171,754)**	(272,844)
	1,860,433	1,514,866
	$ 2,645,168	$ 1,549,745

Approved on behalf of the board:



Director
Donald P. Benson

Director
Barry Palka

Statement of Deficit

For the years ended December 31,	**2003**	2002
DEFICIT, beginning of year	**$ (272,844)**	$ (209,485)
NET INCOME (LOSS) FOR THE YEAR	**101,090**	(63,359)
DEFICIT, end of year	**(171,754)**	(272,844)

Statement of Operations

		For the years ended December 31,	
		2003	2002
REVENUE			
Sales		**$ 479,261**	$ 28,113
EXPENSES			
Production costs			
-Operating		**103,796**	4,671
-Royalties		**92,633**	3,957
Depletion and amortization		**25,490**	91
General & administrative		**67,649**	32,901
Geological services		**9,395**	—
Regulatory fees		**14,154**	15,485
Management fees		**60,000**	10,000
Qualifying transaction costs		**—**	7,899
Professional fees		**18,963**	18,048
		392,080	93,052
INCOME (LOSS) BEFORE OTHER ITEM		**87,181**	(64,939)
OTHER ITEM			
Interest income		**5,909**	1,580
INCOME (LOSS) BEFORE INCOME TAXES		**93,090**	(63,359)
INCOME TAXES (Note 3)			
Future tax expense (benefit)		**(8,000)**	—
NET INCOME (LOSS) FOR THE YEAR		**$ 101,090**	(63,359)
EARNINGS PER SHARE	Basic	**$ 0.0121**	(0.0145)
	Diluted	**0.0119**	(0.0141)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
	Basic	**8,325,079**	4,372,672
	Diluted	**8,524,397**	4,485,716

Statement of Cash Flows

	For the years ended December 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations	**$ 347,580**	$ 2,579
Cash paid to suppliers	**105,178**	(121,194)
Interest earned	**5,909**	1,580
	458,667	(117,035)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment acquisitions	**(1,067,821)**	(903,600)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share capital issued net of issue costs	**508,477**	1,487,710
INCREASE (DECREASE) IN CASH AND EQUIVALENTS, DURING THE YEAR	**(100,677)**	467,075
CASH AND EQUIVALENTS, beginning of year	**600,650**	133,575
CASH AND EQUIVALENTS, end of year	**$ 499,973**	$ 600,650
REPRESENTED BY:		
Cash	**$ 31,985**	$ 100,650
Short-term investments	**467,988**	500,000
	$ 499,973	$ 600,650

NOTES TO THE FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business Financial Instruments

The Company is incorporated under the laws of Manitoba and is engaged in the selection, acquisition, exploration and development of oil a nd ga s properties.

Financial Instruments

As part of its normal operations the Company uses a number of financial instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Short-term Investments

Short-term investments are stated at the lower of cost and market value.

Revenue Recognition

Petroleum and natural gas sales are recognized when the product is shipped and ownership transfers.

Petroleum and Natural Gas Property and Equipment

The Company follows the Canadian Institute of Chartered Accountants' Accounting Guideline (AcG) - 16 f or the full cost method of accounting for oil and gas properties where by 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 significantly alter the rate of depletion in which case it would be charged or credited to operations of the current year.

The Company annually applies a ceiling test to capitalized costs, net of accumulated depletion and amortization, to ensure they do not exceed the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on year-end prices and costs, adjusted for estimated future general and administrative expenses, abandonment and site restoration costs, financing costs and income taxes. An impairment loss is recognized if capitalized costs are greater than their recoverable amount. The impairment loss is measured as the amount by which capitalized costs exceed 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 ceiling test, will be charged to operations.

Upon commencement of production, capitalized costs are depleted using the unit-of-production method, based on estimated probable and proven oil and gas reserves determined by independent engineers.

At present, 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.

Computers are amortized on a 30 % declining balance basis.

Pipelines are amortized over 10 years on a straight-line basis.

Future Site Restoration

Estimated future site restoration, including the removal of production facilities at the end of their useful lives and net of salvage values, are provided for using the unit of production method. This estimate is based on current costs, existing legislation and industry standards. The annual charge is accounted for as an expense and the accumulated provision is reflected as a deferred liability. Actual site restoration costs are deducted from the accumulated provision in the year incurred.

Future Income Taxes

Income taxes are accounted for under the liability method. Future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and non-capital loss carry-forwards and are measured using the current tax rates and laws expected to apply when these differences reverse. Future tax benefits, including non-capital loss carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that substantive enactment or enactment occurs.

Earnings per Common Share

Net income per common share has been computed by dividing income applicable to common shareholders by the weighted average number of shares of common stock outstanding during the respective years. Diluted earnings per share is determined by applying the treasury stock method to the exercise of outstanding stock options and share purchase warrants.

Measurement Uncertainty

The amounts recorded for depletion and amortization of oil and gas interests and property and equipment are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, oil price, future costs and other relevant assumptions. 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.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual amounts could differ from those estimates.

Stock Based Compensation

Effective January 1, 2004, CICA Hand book Section - 3870, Stock-based Compensation and other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees. On January 1, 2004, the Corporation will adopt the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees.

Flow-through Shares

Expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are to be renounced to investors in accordance with income tax legislation. Share capital is reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred and renounced.

1. Short-term Investments

	2003	2002
Marketable securities	**$ 467,988**	$ 500,000

Marketable securities are comprised of guaranteed investment certificates from a chartered bank with effective interest rates of 1.8 5% to 2.05%. Interest is receivable on maturity.

2. Property and equipment

	2003			2002		
	Cost	**Accumulated Depletion**	**Net Book Value**	Cost	Accumulated Depletion	Net Book Value
Petroleum and natural gas properties and equipment	**$ 1,970,811**	**$ 25,335**	**$ 1,945,476**	$ 902,990	$ —	$ 902,990
Computers	**610**	**247**	**363**	610	91	519
	$ 1,971,421	**$ 25,582**	**$ 1,945,839**	$ 903,600	$ 91	$ 903,509

At December 31, 2003, costs amounting to $412,325 (2002 - $201,740) that were incurred on unproven properties have been excluded from costs subject to depletion.

3. Income Taxes

The income tax expense differs from the amount that would be obtained by applying the statutory income tax rate to income before income taxes. The principal reasons for the difference between such " expected" income tax expense and the amount recorded are as follows:

	2003	2002
	Amount	Amount
Corporate tax rate	**40.0 %**	40.0 %
"Expected" income tax expense	**$ 36,037**	$ (25,344)
Non-deductible crown charges	**29,579**	1,583
Resource allowances	**(17,403)**	6,042
Valuation Allowance	**(43,131)**	12,340
Other	**(13,082)**	5,379
Income tax expense	**$ (8,000)**	$ —

The components of the net future income tax liability are as follows:

	2003
Carrying value of property and equipment in excess of tax basis	**$ (341,000)**
Non-Capital Losses	**25,000**
Share Issue Costs	**60,000**
Future tax liability	**$ (256,000)**

Notes to Financial Statements

3. *Income Taxes* continued

The Company has available the following tax pool balances which may be deducted in determining taxable income of future years.

	2003	2002
Oil and Gas Property Expense	**$ 300,687**	$ 277,950
Undepreciated Capital Cost	**356,563**	152,760
Development Expense	**359,150**	274,150
Non-Capital Losses	**67,751**	165,340
Share Issue Costs	**162,342**	150,832
Total Tax Pools	**$ 1,246,493**	$ 1,021,032

The Company is committed to spending an additional $ 483 ,475 in qualifying expenditures pursuant to a flow-through financing completed in 2003.
The Company's non-capital losses of $67,751, which are available to reduce future taxable income, expire in 2011 .

4. *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 lines, oil and gas leases, and certain capital assets. During the prior year the company acquired this interest as it's qualifying transaction as described in Note 5. 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 capital assets. 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 venture agreement.

The Company has a management services agreement established with Nordic Management Ltd. for management services. Nordic Management Ltd. receives $5,000 per month for services provided, the contract expires November 14, 2007. Subsequent to year end the management agreement was amended to increase the monthly management fee to $10,000. The Company directors and officers have an interest in Nordic Management Ltd.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm 's length equivalent value for sales of product.

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

	2003	2002
Amounts included in accounts receivable	**$ 135,807**	$ 13,671
Amounts included in accounts payable	**444,609**	43

These balances are non-interest bearing, payable on demand and have arisen from the sales of product and provision of services referred to above.

5. Share Capital

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

The issued capital is as follows:

	2003		2002	
	Number of Shares	**Amounts**	Number of Shares	Amounts
Common Shares				
Balance, beginning of year	**8,190,627**	**$ 1,680,291**	4,000,000	$ 300,000
Issued for oil and gas properties	**—**	**—**	1,690,625	624,888
Issued as flow through shares	**1,425,000**	**540,174**	2,500,002	943,943
Future income tax effect on on flow-through share	**—**	**(264,000)**	—	—
Share issue costs	**—**	**(61,523)**	—	(188,540)
Balance, end of year	**9,615,627**	**$ 1,894,942**	8,190,627	$ 1,680,291
Warrants				
Balance, beginning of year	**458,333**	**$ 107,419**	—	$ —
Issued as flow through shares	**142,500**	**29,826**	208,333	56,057
Issues as agent warrants	**—**	**—**	250,000	51,362
Balance, end of year	**600,833**	**$ 137,245**	458,333	$ 107,419

During the year, the Company issued on a private placement basis, 1,425,000 Class A flow through common share at $0.40 per share for gross proceeds of $570,000. In conjunction with the placement, 142,500 agent warrants were issued. One agent's warrant entitles the holder to purchase one Class A common share at a price of $0.40. The warrants expire in the period of November to December 2005.

During the prior year the company issued 1,690,625 Class A Common shares at a value of $0.40 per share on the acquisition of an 85% interest in oil and gas properties of a related party (Note 4). These shares are held in escrow and they are to be released as to 5% of the original balance semi-annually from the date of issue (November 12, 2002) for the first two years. After the first two years the amount to be released increases to 10% of the original balance semi-annually. As of the year end there are 1,521,563 held in escrow.

There are also 1,333,333 of the otherwise issued Class A Common shares held in escrow. These escrowed shares shall be released from escrow to their holders as to one-third (1/3) on each of the first, second and third anniversaries of the completion of the Qualifying Transaction (November 12, 2004 and 2005, respectively).

From previous share issuances, the Company has 458,333 warrants outstanding. Of these 208,333 warrants allow the holder to subscribe for one flow through Class A common share for $0.60 with an expiry date of May 13, 2004. The remaining 250,000 are agent warrants that allow the holder to purchase one Class A common share at $0.40 with an expiry of November 13, 2004. The fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	5%
Expected life (years)	2
Expected volatility	95%

STOCK OPTIONS

The company has a Stock Option Plan for the issuance of common shares to employees, officers, directors and other key personnel based on approval of the Board of Directors and regulatory authorities. 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. Options vest at the determination of the Board of Directors at time of granting.

5. Share Capital continued

As at December 31, 2003 the Company has the following stock options outstanding:

	Option Number of Shares	Price per Share Range	Wtd Average Exercise Price
Options outstanding, beginning of year	200,000	$ 0.10	$ 0.10
Awarded (1)	725,000	0.40	0.40
Cancelled	(125,000)	0.10 - 0.40	0.28
Options outstanding, end of year	800,000	$ 0.10 - 0 .40	$ 0.34

[1]Options awarded during the year to Directors and Officers vested immediately.

The following table summarizes information about the stock options outstanding at December 31, 2003 :

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	0.10	0.10	1.97	150,000	0.10
650,000	0.40	0.40	4.13	650,000	0.40
800,000	0.34	0.34	—	800,000	0.34

The following table summarized information about the stock options outstanding at December 31, 2002 :

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
200,000	0.10	0.10	2.97	200,000	0.10

The Company does not record compensation expense when stock options are issued to employees, as disclosed in significant accounting policies - Stock Based Compensation.

Had compensation expense related to employees been determined based on the fair value at the grant dates, the net income and earnings per share for the year ended December 31, 2003 would have been reduced to the pro forma amounts indicated below:

Net Income (Loss)	- as reported	$	101,090
	- pro forma	$	(67,347)
Income (Loss) per share	- basic as reported	$	0.0121
	- basic pro forma	$	(0.0081)
	- diluted as reported	$	0.0119
	- diluted pro forma	$	(0.0079)

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

Risk- free interest rate	5%
Expected life (years)	5
Expected volatility	95%

There is no effect for the year ended December 31, 2002 since no stock options were issued during the fiscal year end.

6. Contingencies and Future Changes to Significant Accounting Policies

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. Effective January 1, 2004 the company will adopt an accounting policy with respect to asset retirement obligations in accordance with Section 3110 of the C.I.C.A. Handbook .

7. Commitments

a) The Company has an contractual obligation for rental space of $300 per month.

b) Pursuant to the flow-through shares issued, the Company is committed to spending $483 ,475 on qualifying expenditures by December 31, 2004 .

8. Subsequent Events

a) Subsequent to year end, on February 16, 2004, the company announced that 150,000 stock options have been issued to the directors and 10,000 stock options have been issued to a consultant. The options were granted and fully vested February 13, 2004, are exercisable at $0.40 per share and are for a term of five years. On March 16, 2004, the company issued 50,000 stock options to a consultant which are fully vested, are exercisable at $0.40 per share and are for a term of five years. In addition on February 27, 2004 a director exercised 75,000 stock options at an option price o f $0 .10 per share.

b) Nordic Oil and Gas Ltd. 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 in the amount of $11,000,000 and asks the court to confirm the validity of the leases. Desoto Resources Limited holds in trust an 8 5% portion of the interest in the leases on behalf of Nordic Oil and Gas Ltd. As at June 9, 2004, the likelihood of the claim is indeterminable.

SHAREHOLDER INFORMATION

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4727 Roblin Boulevard
Winnipeg, Manitoba, Canada R3R 0G2
Telephone: 204-956-5042
Fax: 204-897-7154

General Information

of Shares Outstanding: 9,690,627
Stock Exchange: Toronto Venture Exchange
Trading Symbol: NOG
Fiscal Year-end: December 31
Transfer Agent: CIBC Mellon Trust, Winnipeg
Auditors: BDO Dunwoody, Winnipeg, Manitoba
Reporting Jurisdictions: Alberta, Manitoba, Saskatchewan and British Columbia
Web site: www.nordicoilandgas.com

Annual General Meeting

Date: Dec. 23, 2004
Time: 10:00 AM, Central Time
Location: Boardroom, Masonic Memorial Temple, 420 Corydon Avenue, Winnipeg, Manitoba R3L 0N8

Corporate Officers and Board of Directors

Donald P. Benson (1)
Chairman & Chief Executive Officer

Keith Peterson
Secretary-Treasure & Director

Michael Mann, P. Geol. (1)
Director

Barry Palka (1)
Director

Brahm Silverstone
Director

(1) – Members of the Audit Committee and Reserves Committee