



Annual Report 2002

# 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 (NGL). The company's operations are concentrated in two core districts in Western Canada – the Joffre area of central Alberta and the Preeceville region of east-central Saskatchewan.

Nordic Oil and Gas is focused on building its asset 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.

During its initial years of operation, Nordic management has pledged to concentrate on low risk development drilling aimed at increasing production and reserves in core areas. Toward this end, Nordic Oil and Gas also pledges to look for opportunities to further strengthen its position in existing core areas and to 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.

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## 2002 CORPORATE HIGHLIGHTS AT-A-GLANCE

### April

- Company files Preliminary Prospectus for \$1 million financing

### June

- Company files Final Prospectus relating to IPO of units for gross proceeds of \$1 million

### November

- Financing successfully completed
- Qualifying Transaction successfully completed – acquisition of 85% of certain assets, equipment and lands owned by Desoto Resources Ltd.
- Company undertakes first seismic survey at Preeceville

### December

- Company acquires additional 42.5% in 640 acres in Joffre, including one gas well, bringing its total ownership to 85%

### Subsequent to Year-End

- Company obtains first well license to commence drilling activity at Joffre
- Company acquires land options at Joffre for additional 640 acres
- Company completes processing and assessment of initial seismic survey done at Preeceville
- Company exercises option to acquire the P & NG rights to additional 480 acres of land in Joffre
- Company acquires 80% interest in special exploration permit containing 64,690 acres; brings total acreage in Preeceville area to 91,700 acres
- Company drills first well in Joffre
- Company completes second seismic survey in Preeceville

## CHAIRMAN'S MESSAGE TO SHAREHOLDERS

The year 2002 was an exciting and eventful one for all of us associated with Nordic Oil and Gas. Our year began with much anticipation, as only a few months previously we had announced that we had reached an agreement in principle to purchase an 85% interest in certain properties and assets of Desoto Resources Ltd. This would represent our Qualifying Transaction on the TSX Venture Exchange, and when completed, would result in Nordic Oil and Gas becoming a Tier 2 Company traded on the Venture Exchange.

The terms of the purchase agreement called for Nordic to undertake an oil and gas exploration program in certain areas within Alberta and Saskatchewan. Specifically, we agreed to undertake seismic surveys and drill three wells on identified lands in the Joffre area of central Alberta, and seismic surveys on certain lands in the Preeceville region of Saskatchewan. In order to finance the aggressive work program we planned for both regions, a decision was made to go to the public markets to secure the necessary financing.

### SUCCESSFUL FINANCING

Our earliest priority for 2002 was to prepare for this financing. A preliminary long form prospectus was filed in April and this was followed in mid-June by the filing of the final prospectus relating to a public offering of units by the Company for gross proceeds of \$1 million. Each unit consisted of one Class A common share of the Company, five Class A common shares, issued as "flow-through shares", and one-half of one non-transferable Class A common share purchase warrant. Winnipeg-based Wellington West Capital Inc. was retained to act as agent for the offering.

We spent the next several months in various areas of western and northern Canada talking to prospective investors about Nordic Oil and Gas and despite less than ideal economic conditions that had many investors sitting on the sidelines, the offering was successfully closed in November. The Company then received final approval from the TSX Venture Exchange for the acquisition of the 85% interest in Desoto Resources as Nordic's Qualifying Transaction, and we were listed on the TSXV as a Tier 2 oil and gas issuer.

We now were in position to not only fulfill the requirements of the acquisition agreement, but also

to begin developing and mapping out the strategies for the aggressive drilling program we have planned for 2003.

### CORE STRENGTHS

Over the past couple of years, one of the few bright lights in what has been described by many as "market mayhem", has been the oil and gas sector to which investors have given some recognition after dismissing it throughout much of the late 1990s. Oil has remained at or around the USD \$30 per barrel range for the better part of a year now. Natural Gas, which we believe leads in profitability and pricing, shows indications of remaining strong for the next 12 months.

However, there remains a certain anxiety within the sector, particularly on the Natural Gas side where pressure is being applied to maintain current production levels. Demand for natural gas in North America is projected to increase 26% over the next decade, 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.

Another reason is our core strengths, which we believe put us in a strong position to capitalize on these opportunities. First and foremost is our team of professionals and management personnel that we have assembled, including our independent consultants. We have taken great care and diligence to select experienced, qualified and dedicated people to effectively shape and guide the growth and development of our Company. These are people that shareholders can have faith in and can trust to make the kinds of decisions that have their best interests in mind.

Yet another of our strengths is the fact that we have high percentage interests in large, core areas. 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.

## STRATEGIC PLANS

To ensure that we capitalize on these core strengths, we have developed key strategic plans, goals and objectives again, both for the short-term and the long. 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 area 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.

Growth, however, will not be restricted to success through the drill bit. We also will be keeping a keen eye out for possible merger and acquisition opportunities throughout 2003. The implementation of these strategies will enable Nordic Oil and Gas to grow our production levels, cash flow and net income both consistently and predictably.

## OUTLOOK POSITIVE

The overall outlook for Nordic Oil and Gas is outstanding. We have large land positions in two strong areas, and when combined with a sound exploration and development program, our increased drilling activity and our experienced management team, we are in an excellent position to generate substantial cash flow this year and we should post strong operational and financial results in 2003 and beyond. In addition, we expect to realize huge ongoing benefits from our promising exploration project in Saskatchewan.

Entering 2003, we are increasingly optimistic about our potential for growth and success. Not only are current oil and gas prices at high levels, natural gas storage is at an all-time low, which should mean that prices will remain at these high levels for some time.

The possibility also exists that we could see a huge spike in the price of natural gas due to the inability of producers to inject the needed target volume of approximately three trillion cubic feet (TCF) target storage volume.

We are poised to excel in the Canadian oil and gas exploration and production sector. We have a great mix of existing production, infrastructure and development drilling opportunities that are capable of significant returns on investment. Our fundamentals are sound; our core strengths are substantial; our focus is clear; and, we have the experience and expertise to transform this opportunity into meaningful shareholder value.

In closing, I would like to thank our shareholders for their confidence and support.

Sincerely,



Donald P. Benson  
Chairman, President & CEO



## AREAS OF OPERATION

Nordic Oil and Gas' operations are focused in west central Alberta and southeastern Saskatchewan, two of Canada's primary areas for oil and gas exploration. The Joffre region in Alberta is one of Western Canada's most active, having been explored and produced for many years. The Preeceville region, on the other hand, is, in the Company's view, an area of great promise and potential.

### THE JOFFRE REGION

The Joffre property, located approximately 30 kilometres northeast of Red Deer, is comprised of approximately 4,840 acres and is a rich hydrocarbon area of the province. It consists of existing Natural Gas production along with a significant land base with strong development opportunities.

As the Natural Gas market heats up, many exploration and development companies look for "bypassed" gas zones to exploit – the Joffre region is such a candidate. Wells adjacent to the Nordic Oil and Gas properties have Drill Stem Tested almost 2 million cubic feet per day from the Belly River formation.

It is important to note that one gas pool a few kilometers southwest of the Nordic Oil and Gas lands in Joffre has 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".

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.

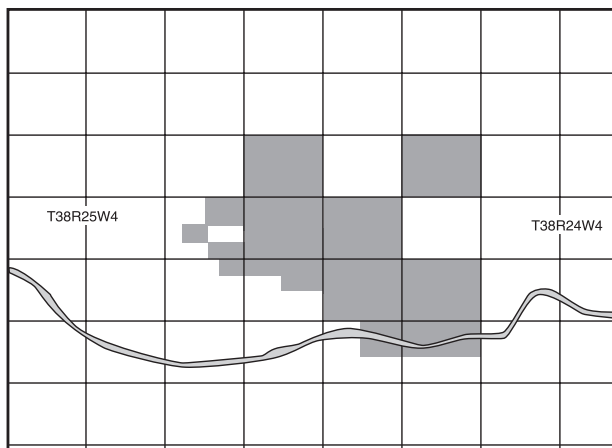
### THE PREECEVILLE REGION

The Preeceville area of east central 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". Nordic is exploring alternatives to finance the drilling of a test well.

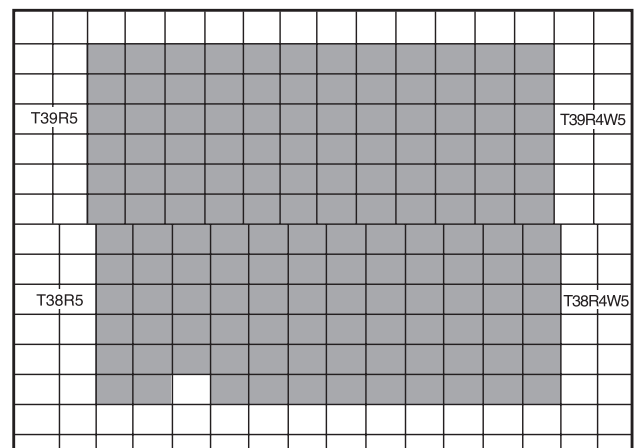
Fourteen kilometres of seismic were completed in December of 2002 and the processed seismic has identified multiple zones within the Nordic lands. This leads the Company to have considerable optimism in its further evaluation of the property.

Toward this end, an additional 16 km of seismic surveys has recently been completed and the Company is planning to drill a test well.

JOFFRE CORE AREA



PREECEVILLE CORE AREA



## DRILLING AND EXPLORATION ACTIVITIES

The Company has been quite active on a number of fronts. Early in 2003, Nordic obtained its first well license to commence drilling a Belly River well near Joffre. The company completed drilling the well in May and a pipeline is being laid to tie in this well.

In December of last year, Nordic acquired an additional 42.5% interest in a well and associated lands in the Joffre area, bringing its total interest in the section to 85%. This acquisition gives Nordic Oil and Gas additional prospects within the section, which should yield natural gas in one formation and oil and/or natural gas in another. The acquisition is expected to “pay out” before the end of 2003.

In January, the Company secured an option to acquire 640 acres adjoining its present land in Joffre, and it plans to test the Belly River formation. And in February, Nordic exercised an option to purchase the P & NG rights to an additional 480 acres of land adjacent to its existing property in Joffre. The Company already owns a quarter section and the acquisition of these additional 480 acres would give them a full section of land, thereby allowing them to drill for gas on the property. The Company drilled a well to the base of the Belly River formation in May.

Nordic Oil and Gas anticipates that it will have three wells licensed in Joffre by September of this year, upon which it will commence drilling of wells that are expected to generate total Natural Gas production of 1,000 MCF per day. This will leave Nordic with an interest in nine additional spacing units (a spacing unit is the amount of land required in order to drill a well). As such, the Company has started discussions with the owners of these lands required to make up the full nine spacing units. The Company hopes to drill shallow gas wells on these lands within 12 months.

In April of this year, Nordic announced that it had obtained a Further Special Exploration Permit in the Preeceville area, bringing its total land base in the area to nearly four townships in a 143 square mile radius. The seismic that was completed in December over the 14 kilometres, identified numerous zones that are strong candidates for containing hydrocarbons. As such, the Company has completed further seismic surveys over its lands.

The Company is planning to drill an exploration well at Preeceville in 2003.

## OUTLOOK

Our goal is to maintain a base of land that will allow Nordic Oil and Gas both 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.

A clearly defined focus helps to reduce other costs as well, including land acquisitions and operating characteristics. Our management’s years of experience will allow Nordic Oil and Gas to continue identifying new exploration prospects and to remain alert to and prepared for opportunities for cost-effective property acquisitions.

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.

# MANAGEMENT'S DISCUSSION & ANALYSIS

## DESCRIPTION OF BUSINESS

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

Nordic Oil and Gas presently has interests in Natural Gas and Natural Gas Liquids production at Joffre, Alberta, approximately 30 kilometres east of Red Deer. The area has been identified as being rich in hydrocarbons. The Company also has interests in a shallow, cost-effective oil and gas target in the Preeceville area of east-central Saskatchewan.

Following a successful public offering of units in November 2002 by the Company for gross proceeds of \$1 million, the Company received final approval from shareholders and the TSX Venture Exchange for the acquisition of the 85% interest in Desoto Resources. This constituted Nordic's Qualifying Transaction as Capital Pool Company, at which time it as listed on the TSXV as a Tier 2 oil and gas issuer.

## DISCUSSION OF OPERATIONS & FINANCIAL CONDITION

During 2002, Nordic acquired an 85% interest in certain assets of Desoto Resources at a cost of \$701,250. Of this amount, \$25,000 was paid in cash by Nordic to Desoto following the successful closing of the Qualifying Transaction, with the balance (\$676,250) paid by Nordic issuing to Desoto, 1,690,625 full paid and non-assessable Class A Common Shares in the capital of Nordic Oil and Gas Ltd., with a deemed price of \$0.40 per share.

The Desoto assets consisted of the following, of which Nordic acquired an 85% interest:

- Desoto's 100% interest in petroleum and natural gas rights from the surface down to and excluding the top of the Viking zone for 11 Crown leases and 16 freehold leases;
- Desoto's undivided 100% interest in Line Nos. 001, 002 and 003 of Pipeline License No. 35061;
- Desoto's undivided 50% interest in petroleum and natural gas Lease No. 0487110071. This lease and land contains one producing well;
- Desoto's undivided 50% interest in separator building, vertical separator, wellhead equipment and

including fluid lift system, methanol pump and tank, and water tank as associated and used in connection with the Lease No. 0487110071;

- Desoto's undivided 50% interest in Line No. 001 of Pipeline License No. 35032.

In addition, as part of the Qualifying Transaction, Nordic also acquired an 80% interest in various lands in the Preeceville area of Saskatchewan as follows:

- Township 38 Range 04 W2M Sections 28, 29, 30, 31, 32, 33, 34 and 45;
- Township 39 Range 04 W2M Sections 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 16, 17, 18, 19, 20 and 21;
- Township 38 Range 05 W2M Sections 25, 26, 27, 34, 35 and 36;
- Township 39 Range 05 W2M Sections 1, 2, 3, 10, 11, 12, 13, 14, 15, 22, 23 and 24.

As a result of these two transactions, The Company currently has 8,190,627 Commons Shares outstanding. In addition, there currently are 356,167 warrants outstanding, which are convertible to Common Shares on a one-for-one basis, subject to the payment of \$0.40 to \$0.60 per warrant for the 106,167 warrants. Nordic Oil and Gas also has extended 200,000 stock options to officers and directors of the Company exercisable at 10¢ per share for 150,000 options and 40¢ per share for the remaining 575,000 options.

## SUBSEQUENT EVENTS

In January, the Company secured an option to acquire 640 acres adjoining its present land in Joffre, and it plans to test the Belly River formation. And in February, Nordic exercised an option to purchase the P & NG rights to an additional 480 acres of land adjacent to its existing property in Joffre. The Company already owns a quarter section and the acquisition of these additional 480 acres brings the total to a full section of land, thereby allowing it to drill for gas on the property.

In April, Nordic obtained an 80% interest in a Special Exploration Permit for the petroleum and natural gas rights covering 64,690 acres in the Preeceville area. The permit surrounds the prior 27,011 acres in which the Company holds an 80% interest.

## **LIQUIDITY & SOLVENCY**

As at December 31, 2002, Nordic Oil and Gas had positive working capital (cash and cash equivalents) of \$600,650, compared to \$133,575 at December 31, 2001. In addition, the Company had a negative cash flow from operating activities in the amount of \$117,036 for the year ended December 31, 2002, compared to a negative cash flow of \$95,681 at the end of 2001.

Overall, the Company recorded a net loss of \$63,359 for the year ended December 31, 2002, which compares to a net loss of \$139,845 for the previous year. The deficit at the end of the year totaled \$272,844, compared to a deficit of \$209,485 as at December 31, 2001.

Assets as at December 31, 2002 totaled \$1,549,745, versus \$143,656 at the end of the prior year.

The Company's investing activities (including general and administrative expenses, organization and share issue costs, regulatory costs, Qualifying Transaction costs and professional/consulting fees) for the year totaled \$84,924; this compares with expenses of \$146,016 recorded at the end of 2001.

## **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.

### ***Operating Risks***

Oil and natural gas operations are subject to all the risks and hazards typically associated with such operations, including fire, explosion, blowouts, formation damage and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment, or in personal injury.

Operational risks also include finding and developing oil and natural gas reserves on an economic basis, reservoir production performance, marketing, production and accessing contract services on a cost-effective basis. Nordic Oil and Gas has implemented a strategy of maximizing its assets by exploiting existing production opportunities and implementing advanced technologies to reduce risk and increase production.

## **Financial Risks**

Financial risks include commodity prices, interest rates and any rates of currency exchange. Nordic Oil and Gas operates in a competitive environment where the commodity price is affected by a number of factors beyond the Company's control.

The Company'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 and political developments and stability, particularly in the Middle East. In addition, the marketability of the Company's production will depend upon the availability and capacity of gathering systems and pipelines, the effect of federal and provincial legislation of such production, and the general economic conditions.

### ***Price Volatility of Publicly Traded Securities***

In recent years, the securities markets in both Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have undergone wide fluctuations in price, which have not necessarily been related to operating performance, underlying asset values or prospects.

### ***Development of Additional Reserves***

The future success of Nordic Oil and Gas will depend upon its ability to find or acquire additional oil and gas reserves that are economically recoverable.

### ***Competition***

Given the competitive nature of the oil and gas industries, Nordic Oil and Gas will compete for 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.

Palmer, Badger & Co., Chartered Accountants, the independent auditors of the corporation were appointed by the shareholders, and 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

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## *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, 2002 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, 2002, and the results of its operations and cash flow for then year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Canada  
May 10, 2003

Palmer Badger & Co.  
Chartered Accountants

# CONSOLIDATED FINANCIAL STATEMENTS

## Balance Sheet

	For the years ended December 31,	
	2002	2001
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash in bank and short term investments	\$ 100,650	\$ 7,840
Term deposits	500,000	125,735
Accounts receivable	35,542	10,008
Prepaid expenses	10,044	73
	646,236	143,656
<b>OIL AND GAS INTERESTS (Note 2)</b>	902,990	—
<b>CAPITAL ASSETS (Note 3)</b>	519	—
	<u>\$1,549,745</u>	<u>\$ 143,656</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 34,879	\$ 53,141
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL (Note 4)</b>	1,787,710	300,000
<b>RETAINED EARNINGS (DEFICIT)</b>	(272,844)	(209,485)
	1,514,866	90,515
	<u>\$ 1,549,745</u>	<u>\$ 143,656</u>

APPROVED ON BEHALF OF THE BOARD:



Donald P. Benson

Director



Keith A. Peterson

Director

## Statement of Income and Retained Earnings

	For the years ended December 31,	
	2002	2001
Revenue		
Oil and gas revenue	\$ 28,113	\$ —
Interest	1,580	6,170
	29,693	6,170
Production costs		
Operating	4,671	—
Royalties	3,957	—
	8,628	—
Expenses		
Amortization	91	—
General & administrative	32,901	9,528
Management fees	10,000	—
Professional fees	18,048	25,998
Qualifying transaction costs	7,899	96,179
Regulatory fees	15,485	14,310
	84,424	146,015
Net income (loss) for the year	(63,359)	(139,845)
Retained earnings (deficit), beginning of year	(209,485)	(69,640)
Retained earnings (deficit), end of year	\$ (272,844)	\$ (209,485)

# Statement of Cash Flows

	For the years ended December 31,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operations	\$ 2,579	\$ —
Cash paid to suppliers	(121,194)	(101,851)
Interest earned	1,580	6,170
	(117,035)	(95,681)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to fixed assets	(610)	—
Investment in oil and gas properties	(902,990)	—
	(903,600)	—
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share capital issued	1,487,710	—
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS, DURING THE YEAR</b>	467,075	(95,681)
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	133,575	229,256
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<b>\$ 600,650</b>	<b>\$ 133,575</b>
<b>CASH AND EQUIVALENTS REPRESENTED BY:</b>		
Cash in bank	\$ 100,650	\$ 7,840
Term deposits	500,000	125,735
	<b>\$ 600,650</b>	<b>\$ 133,575</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Significant Accounting Policies:

### a) Incorporation

Nordic Oil and Gas Ltd., (the "Company") was incorporated under The Corporations Act (Manitoba). The Company was originally classified as a venture capital pool corporation under the rules of the Toronto Venture Exchange ("TSX", formerly the Canadian Venture Exchange). Under such rules, to meet the initial listings requirements of a publicly traded company, the Company was required to complete a Qualifying Transaction. The Company completed a Qualifying Transaction on November 14, 2002 and is now a fully traded and listed company on the TSX (see note 2).

### b) Financial instruments

Financial instruments include cash and term deposits, accounts and GST receivable, accounts payable and accrued liabilities. The estimated fair value of such financial instruments approximates their carrying values.

### c) Future income taxes

The company follows the liability method of accounting for income taxes. Under this method, income taxes are recognized for the future income tax consequences attributable to differences between the carrying value and the tax bases of assets and liabilities. The future tax effect of the loss carry forwards which would comprise tax assets is as follows:

Future tax assets	\$ 73,800	\$ 33,560
Valuation allowance	(73,800)	(33,560)
<b>Net future tax assets</b>	<b>\$ —</b>	<b>\$ —</b>

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

### d) Oil & gas interests and depletion

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the acquisition, exploration and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, drilling and other costs related to exploration and development activities. Proceeds from the disposal of oil and gas properties are applied against the capitalized costs of the related property.

The Company annually applies a ceiling test to capitalized costs, net of accumulated depletion and depreciation, 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. 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 others. These financial statements reflect only the Company's proportionate interest in the joint ventures.

## e) Stock based compensation

The Company has a stock option plan for its directors, officers and employees. No compensation expense is recorded on the granting of options under this plan. Any consideration paid by option holders on the exercise of stock options is credited to share capital.

Commencing November 01, 2002, the Company will adopt the new Canadian accounting standard for stockbased compensation and other stock-based payments which requires that all stock-based awards granted to non-employees be accounted for at fair market value. With limited exceptions, the new standard permits the Company to continue its current policy of not recording any compensation cost on the granting of stock options to employees.

## f) 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## g) Measurement uncertainty

The amounts recorded for depletion, depreciation 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.

## 2. Oil and Gas Interests

The following is a summary of the oil and gas interests owned by the company, their rates of depletion using the units-of-production method, their cost, accumulated depletion and resulting net book value:

	2002			2001	
	Rate	Cost	Accumulated Depletion	Cost	Accumulated Depletion
Oil and gas interests		\$ 902,990	\$ —	\$ —	\$ —
Net book value		—	\$ 902,990	\$ —	\$ —

During the year, the Company reached an agreement with Desoto Resources Limited to acquire an 85% interest in certain assets including crown leases, gas lines, oil and gas leases, and certain capital assets for \$701,250, payable by issuing 1,690,625 of Class A common shares (valued at \$0.40 per share for a total value of \$676,250) and \$25,000 cash. This transaction was the Company's Qualifying Transaction. The company directors and officers have an interest in the Vendor Company.

## 3. Fixed Assets

The following is a summary of the fixed assets owned by the company, their rates of amortization using the declining balance method, their cost, accumulated amortization and resulting net book value:

	2002			2001	
	Rate	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	30%	\$ 610	\$ 91	\$ —	\$ —
Net book value	—	—	\$ 519	—	\$ —

#### 4. Share Capital

Authorized:

Unlimited number of Class A Common shares

Issued:	2002	2001
8,190,627 Class A Common shares (2001 - 4,000,000)	\$ 1,787,710	\$ 300,000

During the year the Company completed a public offering of 416,667 units at \$2.40 per unit for total proceeds of \$1,000,000. Each unit consisted of one Class A common share, five Class A common shares issued as "flow-through shares" and one-half of one warrant. Each whole warrant entitles the holder to subscribe for one additional flow-through common share at a price of \$0.60. There are 104,167 whole warrants outstanding with an expiry date of May 13, 2004. Agent's commission, due diligence, sponsorship, legal and accounting costs totaling \$188,540 have been offset against the proceeds from the public offering.

The Company also granted to the agent 250,000 agent's warrants as part of the public offering that occurred during the year. One agent's warrant entitles the holder to purchase one Class A Common share at a price of \$0.40. The warrants expire on November 13, 2004.

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 as noted in Note 2. 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.

There are also 2,000,000 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, 2003, 2004 and 2005, respectively).

The Company has established a stock option plan for its directors, officers, key employees, agents, and consultants. The total number of authorized and unissued common shares allocated to and made available to such participants under the plan shall not exceed 10% of the issued and outstanding Class A Common shares at the time of the granting of the option. At the balance sheet date there are 200,000 options outstanding. These options are exercisable at \$0.10 per share and expire on December 19, 2005. Subsequent to the year end an additional 600,000 options were granted at a price of \$0.40 per share. These options expire in January 7, 2008.

A holder of stock options left his position with the company subsequent to year end. Due to his departure 50,000 of the 200,000 options outstanding at the year end and 75,000 of the 600,000 options that were granted after the year end expired in April 2003.

## *Head Office*

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## *General Information*

# of Shares Outstanding: 8,190,627  
Stock Exchange Listing: TSXV:NOG  
Fiscal Year-end: December 31  
Transfer Agent: CIBC Mellon Trust, Winnipeg  
Auditor: Palmer Badger & Co.  
Reporting Jurisdictions: Alberta, Manitoba

## *Annual General Meeting*

Date: September 23, 2003

## *Corporate Officers and Board of Directors*

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

Keith Peterson  
Secretary-Treasure & Director

Michael Mann, Geologist (1)  
Director

Barry Palka (1)  
Director

Brahm Silverstone, Geophysicist  
Director

(1) – Members of the Audit Committee

