



formerly



**Consolidated Financial Statements
(unaudited)**

**For the Nine months ended
November 30, 2009**

(Expressed in Canadian dollars)

HEMISPHERE ENERGY CORPORATION
(formerly Northern Hemisphere Development Corp.)
Consolidated Balance Sheets
As at November 30, 2009
(Expressed in Canadian dollars)
(Unaudited)

	November 30, 2009	February 28, 2009
Assets		
Current		
Cash and cash equivalents	\$ 111,819	\$ 310,394
Accounts receivable	28,043	44,093
Prepaid expenses and deposits	5,221	7,983
	145,083	362,470
Reclamation Deposits	103,991	56,441
Property and Equipment (note 3)	16,155	30,751
Petroleum and Natural Gas Interests (notes 4 and 5)	882,882	707,552
	\$ 1,148,111	\$ 1,157,214
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 226,111	\$ 196,643
	226,111	196,643
Asset Retirement Obligation (note 5)	6,805	6,077
	232,916	202,720
Shareholders' Equity		
Capital Stock (note 7)	21,458,863	21,199,903
Shares subscribed	100,000	-
Contributed Surplus (note 7(e))	4,653,135	4,543,065
Deficit	(25,296,802)	(24,788,474)
	915,195	954,494
	\$ 1,148,111	\$ 1,157,214
Nature and Continuance of Operations (note 1)		
Contingency (note 12)		

On Behalf of the Board

Signed:

"C.N. O'Sullivan" Director

"Don Simmons" Director

See accompanying notes to the consolidated financial statements

HEMISPHERE ENERGY CORPORATION
(formerly Northern Hemisphere Development Corp.)
Consolidated Statements of Operations and Deficit
For the Nine Months ended November 30, 2009
(Expressed in Canadian dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 30,		November 30,	
	2009	2008	2009	2008
Oil and Gas Operations				
Petroleum and natural gas sales	\$ 50,018	\$ 73,441	\$ 123,434	\$ 292,892
Cost of production	(33,323)	(35,410)	(80,655)	(134,535)
	16,695	38,030	42,779	158,356
Administrative Expenses				
Depletion, depreciation and accretion	73,781	54,676	179,532	160,345
Stock-based compensation (note 7(c))	110,070	84,344	110,070	84,344
Management fees (note 8(a))	25,000	25,000	75,000	61,667
Wages and benefits	8,005	25,810	48,829	75,015
Transfer agent and filing fees	11,544	3,902	36,001	11,861
Professional fees	11,615	16,458	36,309	60,068
Shareholder communication	3,136	3,367	12,864	8,812
Office expenses	4,019	4,164	11,604	14,035
Rent (note 8(b))	2,663	3,919	11,081	11,677
Bank charges and interest	1,974	160	9,968	703
Travel and accommodation	5,297	6,427	8,075	17,118
Telephone	2,927	1,683	6,028	4,197
Foreign exchange loss (gain)	305	(726)	2,736	(337)
	260,337	229,183	548,098	509,503
Loss Before Other Items	(243,642)	(191,153)	(505,318)	(351,147)
Other items:				
Interest income	-	184	1,623	2,165
Flow-through part XII.6 tax	(839)	-	(4,633)	-
Net Loss and Comprehensive Loss for the period	(244,482)	(190,969)	(508,328)	(348,982)
Deficit, beginning of period	(25,052,321)	(23,308,744)	(24,788,474)	(23,150,731)
Deficit, end of period	\$ (25,296,803)	\$ (23,499,713)	\$ (25,296,802)	\$ (23,499,713)
Loss per share	\$ (0.02)	\$ (0.02)	\$ (0.05)	\$ (0.04)
Weighted Average Number of Common Shares Outstanding	10,992,920	9,287,788	10,388,106	9,287,788

See accompanying notes to the consolidated financial statements

HEMISPHERE ENERGY CORPORATION
(formerly Northern Hemisphere Development Corp.)
Consolidated Statements of Cash Flow
For the Nine Months ended November 30, 2009
(Expressed in Canadian dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 30,		November 30,	
	2009	2008	2009	2008
Net loss	\$ (244,481)	\$ (190,969)	\$ (508,328)	\$ (348,982)
Items not involving cash				
Depletion, depreciation and accretion	73,781	54,676	179,532	160,345
Stock-based compensation	110,070	84,344	110,070	84,344
	(60,630)	(51,949)	(218,726)	(104,293)
Changes in Non-Cash Working Capital				
Accounts receivable	10,462	23,577	16,050	46,730
Prepaid expenses	2,238	2,238	2,763	(2,236)
Accounts payable and accrued liabilities	1,477	(23,151)	29,467	(5,690)
	14,177	2,664	48,280	38,804
Cash Used in Operating Activities	(46,453)	(49,285)	(170,446)	(65,489)
Investing Activities				
Disposition (acquisition) of equipment	-	(15,567)	15,567	(15,567)
Expenditures on petroleum and natural gas interests	(90,949)	(171)	(402,655)	(28,624)
Cash Used in Investing Activities	(90,949)	(15,738)	(387,089)	(44,191)
Financing Activities				
Shares issued for cash, net of issue costs	68,130	168,400	258,960	168,400
Shares subscribed	31,250	180,000	100,000	180,000
Cash Provided by Financing Activities	99,380	348,400	358,960	348,400
Inflow (Outflow) of Cash	(38,023)	283,377	(198,575)	238,718
Cash, Beginning of Period	149,842	93,365	310,394	138,024
Cash, End of Period	\$ 111,819	\$ 376,742	\$ 111,819	\$ 376,742
Cash and Cash Equivalent Consists of the following:				
Cash	\$ 111,819	\$ 376,742	\$ 111,819	\$ 376,742
Term deposits	-	-	-	-
Cash and Cash Equivalent, End of Year	111,819	376,742	111,819	376,742

See accompanying notes to the consolidated financial statements

HEMISPHERE ENERGY CORPORATION
(formerly Northern Hemisphere Development Corp.)
Notes to Consolidated Financial Statements
For the Nine months ended November 30, 2009
(Expressed in Canadian dollars)
(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Hemisphere Energy Corporation, formerly Northern Hemisphere Development Corp., (the "Company") was incorporated under the laws of British Columbia. The Company's principal business is the acquisition, exploration, development and production of petroleum and natural gas interests.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred an operating loss for the nine months ended November 30, 2009 of \$505,318 (November 30, 2008 - \$351,147), has a working capital deficit of -\$81,028 (February 28, 2009 - \$165,827), an accumulated deficit of \$25,296,802 (February 28, 2009 - \$24,788,474), limited resources, and no assurances that sufficient funding will be available to conduct further exploration and development of its resource interests. The Company will require additional equity financing to meet its administrative overhead costs, and to continue exploration and development work on its resource properties in 2010.

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued financial support from its shareholders. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures. There can be no assurance that management's plan will be successful given the current difficult conditions.

These consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company's functional and reporting currency is the Canadian dollar.

(a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its integrated, wholly-owned subsidiary, Hemisphere Development Corporation, a US corporation. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Cash and Cash Equivalent

Cash and cash equivalent include cash and short-term, highly liquid investments that are readily convertible into known amounts of cash. Included in cash equivalent at November 30, 2009 is a term deposit in the amount of \$5,000 earning interest of 2.15% and maturing on December 11, 2009.

HEMISPHERE ENERGY CORPORATION
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Petroleum and Natural Gas Interests

Change in accounting policy

During the 2009 year-end, the Company changed its method of accounting for oil and gas exploration and development activities from the full cost to the successful efforts method. The change in accounting policy will allow the Company to allocate expenditures incurred on oil and gas exploration on a well-by-well basis. This change will result in improved matching of costs and management estimates associated with impairment of oil and gas interests. The retrospective application of the successful efforts method did not result in any significant change in operating results or financial position for prior periods.

Under the successful efforts method, costs are initially capitalized as unproven property costs. Once proved reserves are discovered, the costs are reclassified to proved property costs. Exploration drilling costs are capitalized as suspended exploration well costs pending evaluation as to whether sufficient quantities of reserves have been found to justify commercial production. If commercial quantities of reserves are not found, exploration drilling costs are expensed. All exploratory wells are evaluated for commercial viability on a regular basis following completion of drilling. Exploration drilling costs remain capitalized if a determination is made that a sufficient quantity of reserves have been found and sufficient progress is being made to assess the reserves and the economic and operating viability. All other exploration costs, including geological and geophysical and annual lease rentals, are expensed to operations as incurred. All development costs are capitalized as proved property costs. Costs that directly relate to acquisition, exploration and development activities are capitalized.

Costs associated with unproven reserves are reviewed by management to determine whether they have become impaired. If impairment occurs, the carrying value of the related interest will be reduced to reflect the estimated net realizable value. The estimate will be based on the then current conditions. It is possible that changes could occur that would adversely affect management's estimates resulting in further write-downs of the carrying value of the interest. Any revenues earned on unproven properties are booked as a recovery of costs on that property.

(d) Depletion

Depletion of petroleum and natural gas interests and depreciation of production equipment are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by independent engineers. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the cost of undeveloped properties until it is determined that proved reserves are attributable to the property or impairment has occurred.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment of Long-Lived Assets

The costs associated with proved reserves are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves less unproved properties, net of any impairment, exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from proved and probable reserves less unproved properties, net of any impairment. Cash flows are calculated based on estimated future product prices and discounted using the credit adjusted risk-free interest rate. Oil and natural gas assets are evaluated on an annual basis to determine whether the costs are recoverable and do not exceed the fair value of the properties.

(f) Joint Interest Operations

The Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(g) Equipment

Equipment is recorded at cost. Once the assets are in use, amortization is provided over their estimated useful lives on a declining-balance basis at the following annual rates:

Computers	-	30%
Equipment	-	20%
Furniture	-	20%

In the year of acquisition, amortization is recorded using the half-year rule.

(h) Asset Retirement Obligations ("ARO")

The Company's operations are subject to various laws and regulations for federal and regional jurisdictions governing the protection of the environment. These laws are continually changing. The Company expects to make, in the future, expenditures that comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction, and normal operation of oil and gas properties, plant and equipment.

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points and rates, and collectability is reasonably assured. The costs associated with delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

Interest income is recorded on an accrual basis at the stated rate of interest of term deposits over the term to maturity.

(j) Foreign Currency Translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses, at the rate of exchange prevailing at the time of the transaction.

Gains and losses arising from the translation of foreign currency are included in net loss for the year.

(k) Income Taxes

The Company uses the asset and liability method for accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(l) Flow-Through Shares

From time to time, the Company finances a portion of its exploration program with the issuance of flow-through common shares. The tax attributes of qualifying expenditures are renounced to the subscribers of flow-through shares. The tax impact to the Company of the renunciation is recorded on the date that the renunciation is filed with the taxation authorities, through a decrease in the capital stock and the recognition of a future tax liability.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow other than where their release is subject to the passage of time, are excluded from the computation of loss per share until the conditions for their release are satisfied.

(n) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of management estimates include collectability of accounts receivable, recoverability of petroleum and natural gas interests, rates of depletion and depreciation, accrued liabilities, determination of asset retirement obligations and environmental obligations, assumptions used in the calculation of stock-based compensation, allocation of proceeds for units between common shares and warrants, and the determination of the valuation allowance for future tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(o) Stock-Based Compensation

The Company accounts for stock-based compensation expense using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For the directors and employees, the fair value of the options is measured at the date of grant. For non-employees the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or petroleum and natural gas interests, with the offset to contributed surplus.

(p) Capital Stock

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market close on the date the units are issued; and the balance, if any, is allocated to the attached warrants.

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(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Capital Stock (continued)

Share issue costs are netted against share proceeds.

(q) Financial Instruments

All financial instruments are classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

(r) Comprehensive Income

Comprehensive income or loss is defined as the change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. Other comprehensive income or loss consists of gains or losses affecting shareholders' equity that under Canadian GAAP are excluded from net income (loss).

The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's statements of operations equals comprehensive loss.

(s) Changes in Accounting Policies

Effective March 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants ("CICA"):

(i) Capital Disclosures

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and procedures for managing capital and disclose whether it has complied with any capital requirements to which it is subject and the consequences of non-compliance.

As a result of the adoption of these standards, additional disclosures have been included in note 10.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Changes in Accounting Policies (Continued)

(ii) Financial Instruments

Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation", replace Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 9.

(t) Future Accounting Changes

(i) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The IFRS standards will be effective for the Company for interim and fiscal period reporting commencing March 1, 2011. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended February 28, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business Combination

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for a non-controlling interest in a subsidiary.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Future Accounting Changes (Continued)

(ii) Business Combination (Continued)

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on March 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

(iii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after the date of issuance of EIC-173. The Company will adopt this recommendation in its fair value determinations commencing March 1, 2009 and is currently assessing the impact of this change on its consolidated financial statements.

(iv) Goodwill

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This new section is effective for the Company on March 1, 2009. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

(u) Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

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3. EQUIPMENT

November 30, 2009			
	Cost	Accumulated Amortization	Net
Computers	\$ 37,746	\$ 25,740	\$ 12,006
Equipment	8,560	6,529	2,031
Furniture	4,526	2,408	2,118
	\$ 50,832	\$ 34,677	\$ 16,155

February 28, 2009			
	Cost	Accumulated Amortization	Net
Computers	\$ 53,313	\$ 27,443	\$ 25,870
Equipment	8,560	6,162	2,398
Furniture	4,526	2,043	2,483
	\$ 66,399	\$ 35,648	\$ 30,751

4. PETROLEUM AND NATURAL GAS INTERESTS

November 30, 2009			
	Cost	Accumulated Depletion and Depreciation	Total
Petroleum and natural gas properties	\$ 1,670,155	\$ 787,273	\$ 882,882

February 28, 2009			
	Cost	Accumulated Depletion and Depreciation (note 2(u))	Total
Petroleum and natural gas properties	\$ 1,315,050	\$ 607,498	\$ 707,552

During the nine months ended November 30, 2009, the Company capitalized property expenditure costs of \$355,106 (November 30, 2008 - \$28,624) attributable to acquisition, exploration and development activities, including the acquisition of Sylvan Lakes property in July 2009. The Company recorded depletion of \$179,775 (November 30, 2008 - \$153,159). As at November 30, 2009, costs of \$403,291 (February 28, 2009 - \$362,552) related to unproved properties were included in petroleum and natural gas interests and were excluded from the costs subject to depletion and depreciation.

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4. PETROLEUM AND NATURAL GAS INTERESTS (Continued)

In the fiscal year ended February 28, 2009, the Company performed a ceiling test on its petroleum and natural gas interests and an impairment charge of \$99,759 was recorded. The impairment test was calculated by the Company's independent engineering consultant using future prices for the years 2009 to 2013 as follows:

	2009	2010	2011	2012	2013
Natural Gas \$/Mcf	\$ 5.12	\$ 6.43	\$ 6.96	\$ 7.29	\$ 7.50
NGL's \$/bbl	\$41.19	\$43.41	\$46.05	\$53.94	\$57.30

Subsequent to 2013 prices are expected to increase by approximately 2% per year.

5. ASSET RETIREMENT OBLIGATION

The ARO was based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. These payments are expected to be made over the next 7 to 12 years. The estimated total undiscounted amount to settle the AROs is \$16,000. This amount has been discounted using a credit-adjusted interest rate of 10% and an inflation rate of 2.0%. The Company has \$56,441 in various reclamation bonds for its properties held by the Ministry of Energy and Mines.

	November 30, 2009	February 28, 2009
Asset retirement obligation, beginning of year	\$ 6,077	\$ 16,970
Decrease in estimated future obligations	-	(11,863)
Obligations incurred	-	-
Accretion expense	728	970
Asset retirement obligation, end of year	\$ 6,805	\$ 6,077

6. SEGMENTED INFORMATION

The Company's one reportable operating segment is the exploration and development of petroleum and natural gas properties. Geographical information is as follows:

	November 2009	February 28, 2009
Assets		
Canada	\$ 1,148,111	\$ 1,136,251
United States	0	20,963
	\$ 1,148,111	\$ 1,157,214
Revenues		
Canada	\$ 123,131	\$ 341,064
United States	303	13,304
	\$ 123,434	\$ 354,368

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7. CAPITAL STOCK

- (a) Authorized
 Unlimited number of common shares without par value
- (b) Issued and Outstanding

	Number of Shares	Common Stock Amount	Cont Surplus Amount
Balance, February 29, 2008	9,185,944	\$20,947,796	\$4,403,221
Shares issued during the period:			
Non-flow-through share issuance	340,000	170,000	-
Flow -through share issuance	430,000	215,000	-
Stock based compensation	-	-	84,344
Allocation of value of warrants to contributed surplus	-	(55,500)	55,500
Share issuance costs	-	(11,410)	-
Income tax effect of flow-through share renoucement	-	(65,984)	-
Balance, February 28, 2009	9,955,944	\$21,199,903	\$4,543,065
Shares issued during the period:			
Adjustment for fractional shares on the 5 to 1 consolidation	(2)	-	-
Private placement financing	1,040,000	260,000	-
Share issuance costs	-	(1,040)	-
Issuance of stock options			110,070
Balance, November 30, 2009	10,995,942	\$21,458,863	\$4,653,135

Effective April 27, 2009 the Company consolidated its issued capital stock on a 5 old for 1 new basis. The authorized capital stock remained unchanged. The share consolidation was reflected retroactively, which resulted in the Company's issued capital stock decreasing from 49,779,718 common shares to 9,955,944 common shares as at February 28, 2009. Further, the Company's transfer agent gave directive on April 27, 2009 for reduction by 2 shares for fractional adjustment on the share consolidation.

With share consolidation reflected retroactively to February 28, 2009, references to capital stock, options and warrants in these consolidated financial statements and all prior loss per share information were also retroactively restated to give effect to the share consolidation unless otherwise stated.

On July 30, 2009, the Company closed the first tranche of its private placement announced May 25, 2009. This tranche consisting of the sale of 765,000 units at \$0.25 per unit, for proceeds of \$191,250. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.35 until July 29, 2010.

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7. CAPITAL STOCK (Continued)

(b) Issued and Outstanding (continued)

On September 1, 2009, the Company closed the second tranche of its private placement announced May 25, 2009. This tranche consisting of the sale of 275,000 units at \$0.25 per unit, for proceeds of \$68,750 which were received by the Company during August 2009, and recorded as shares subscribed in the period ended August 31, 2009.

On December 1, 2009, the Company closed the first tranche of its private placement announced November 4, 2009. This tranche consisting of the sale of 3,925,000 units at \$0.20 per unit, for proceeds of \$785,000, of which \$100,000 was received by the Company prior to the quarter end and are recorded as shares subscribed on the balance sheet for the period ended November 30, 2009. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.30 until December 1, 2010.

(c) Stock Options

The Company has a stock option plan in place under which it is authorized to grant incentive stock options to officers, directors, employees and to persons in consideration for services. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance may not exceed 10% of the issued shares at the time of grant and to each individual may not exceed 5% of the issued shares. The exercise price of stock options is determined by the board of directors of the Company at the time of grant and may not be less than the average closing price of the Company's shares on the ten trading days immediately preceding the day on which the option is granted and publicly announced, and may not be less than \$0.10 per share. Options have a maximum term of ten years and terminate not later than 30 days following the termination of the optionee's employment, except in the case of retirement, death or disability, in which case they terminate one year after the event. Vesting of the options is determined at the time of granting of the options at the discretion of the board of directors. Once approved and vested, options are exercisable at any time.

Details of the status of the Company's stock options for the nine months ended November 30, 2009 are as follows:

Exercise Price	Expiry Date	Balance				Balance
		Outstanding & Exercisable Feb 28, 2009	Granted	Exercised	Expired/ Cancelled	Outstanding & Exercisable Nov 30, 2009
\$1.50	30-Mar-09	135,000	-	-	(135,000)	0
\$1.75	17-Apr-09	23,515	-	-	(23,515)	0
\$1.50	13-Jul-10	40,000	-	-	-	40,000
\$0.75	7-Dec-10	40,000	-	-	-	40,000
\$0.75	9-Sep-11	568,000	-	-	(30,000)	538,000
\$0.27	28-Sep-14	-	475,000	-	-	475,000
		806,515	475,000	-	(188,515)	1,093,000
Weighted average exercise price		\$ 0.95	\$ 0.27	\$ -	\$ 1.41	\$ 0.57

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7. CAPITAL STOCK (Continued)

(c) Stock Options (continued)

For the nine months ended November 30, 2009, the Company has recognized \$110,070 (twelve months ended February 28, 2009 - \$84,344) in stock-based compensation for the 475,000 incentive stock options issued September 28, 2009.

The fair value was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	November 30, 2009	February 28, 2009
Expected life (years)	5.00	3.00
Interest rate	2.33%	2.76%
Volatility	1.29%	78.93%
Dividend yield	0.00%	0.00%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(d) Share Purchase Warrants

Details of the status of the Company's share purchase warrants for the nine months ended November 30, 2009, are as follows:

Exercise Price	Expiry Date	Balance Outstanding & Exercisable		Issued	Exercised	Expired/ Canceled	Balance Outstanding & Exercisable	
		Feb 28, 2009	Nov 30, 2009				Nov 30, 2009	Nov 30, 2009
\$0.30	12-Dec-10	180,000					180,000	*
\$0.30	12-Dec-10	35,000					35,000	*
\$0.75	5-Sep-10	170,000					170,000	
\$0.35	29-Jul-10			765,000			765,000	
\$0.35	1-Sep-10			275,000			275,000	
		385,000		1,040,000		-	1,425,000	
Weighted average		\$ 0.50		\$ 0.35			\$ 0.40	

* Exercise price and expiry date amended on September 28, 2009

* Forced Exercise Provision effective September 28, 2009

The Company issued warrants in blocks of 765,000 and 275,000 on July 29, 2009 and September 1, 2009 in conjunction with financings as discussed in note 7(b).

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7. CAPITAL STOCK (Continued)

(c) Share Purchase Warrants (continued)

On September 28, 2009, the Company announced amendment to the terms of certain outstanding share purchase warrants issued which were consented to by all of the holders of the warrants and approved by the TSX Venture Exchange as follows:

Number of warrants outstanding	Original exercise price	Original expiry date	Proposed amended exercise price	Proposed expiry date
175,000	\$0.75	Dec. 12, 2009	\$0.30	Dec. 12, 2010
35,000	\$0.75	Jan. 6, 2010	\$0.30	Dec. 12, 2010

Pursuant to the provision of TSX Venture Exchange Policy 4.1, the re-priced warrants will have their exercise period shortened to a period of 30 days if, for 10 consecutive trading days, the closing price of Hemisphere's shares is 37.5 cents or greater - this 30-day period will commence seven calendar days after the 10th premium trading day.

8. RELATED PARTY TRANSACTIONS

These transactions are in the ordinary course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The following represents transactions entered into for the nine months ended November 30, 2009:

- (a) Management fees of \$75,000 (2008 - \$61,667) were charged by directors and officers of the Company;
- (b) Salaries and wages of \$45,000 (2008 - \$41,667) were charged by directors and officers of the Company; and
- (c) Included in rental expense is rental income of \$13,500 (2008 - \$13,500) received from a company with common directors for shared office facilities.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Cash and cash equivalent, and reclamation deposit are designated as held-for-trading; accounts receivable is designated as loans and receivables; and accounts payable and accrued liabilities is designated as other financial liabilities.

- (a) Fair Value
The carrying values of cash and cash equivalent, accounts receivable, reclamation deposit, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for the Company is primarily associated with its cash and cash equivalent and accounts receivable.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with receivables is to establish marketing relationships, in conjunction with its joint interest partner, with purchasers that sell to A+ credit worthy customers. The Company historically has not experienced any collection issues with respect to its receivables.

Cash and cash equivalent consists of cash and term deposit. The Company manages the credit exposure related to the term deposit by selecting low risk investments with major financial institutions with strong investment grade ratings by a primary ratings agency.

Concentration of credit risk exists with the Company's cash and cash equivalent and accounts receivable. The Company's concentration of credit risk and maximum exposure thereto is as follows relating to funds held in Canada:

	November 30, 2009	February 28, 2009
Bank accounts	\$ 111,819	\$ 130,394
Term deposits	0	180,000
Accounts receivable	28,043	44,093
	\$ 139,862	\$ 354,487

(c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To manage its working capital and its liquidity risk the Company prepares annual budgets, which are updated as necessary depending on factors including current and forecast product prices, successful capital deployment and general industry conditions. The Company monitors its working capital with review of its working capital position reports prepared on a weekly basis.

The Company's accounts payable and accrued liabilities come due within the current operating cycle of less than one year.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(d) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency exchange risk, interest rate risk, and other price risk, which includes commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

(i) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas could be impacted by changes in the exchange rate between the Canadian and United States dollar. This indirect exposure to foreign currency exchange rate risk is minimal and cannot be accurately quantified.

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's cash and cash equivalent is held in bank accounts and, due to the short-term nature of these financial instruments, fluctuations in market rates do not have an impact on the fair value as at November 30, 2009.

The Company manages interest rate risk by maintaining an investment policy that focuses on preservation of capital and liquidity.

10. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital to be all components of shareholders' equity. In order to maintain or adjust the capital structure, the Company may from time to time issue shares. The overall objective and policy for managing capital remained unchanged in the nine months ended November 30, 2009 from prior reporting periods. Although the Company has been successful at raising funds in the past through equity financing, it is uncertain whether it can continue this financing due to the current economic conditions.

The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's capital is not subject to external restrictions.

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11. CONTINGENCY

In March 2005, the Company received a notice from the Operator of one of its petroleum and natural gas interests requesting additional funding in the amount of \$160,214. The Company believes this amount is in excess of the amounts authorized for expenditures for payment under the Company's agreement with the Operator. The amount of this contingency has not been accrued in these financial statements as it is the Company's position that the Operator's request is without merit.

12. SUBSEQUENT EVENTS

- (a) On December 1, 2009, the Company closed the first tranche of its private placement announced November 4, 2009. This tranche consisted of the sale of 3,925,000 units at \$0.20 per unit, for proceeds of \$785,000, of which \$100,000 was received by the Company prior to the quarter end and are recorded as shares subscribed on the balance sheet for the period ended November 30, 2009. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.30 until December 1, 2010.
- (b) On December 8, 2009, the Company closed the second tranche of its private placement announced November 4, 2009. This tranche consisted of the sale of 525,000 units at \$0.20 per unit, for proceeds of \$105,000. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.30 until December 8, 2010.
- (c) On December 23, 2009, the Company closed its flow-through private placement announced December 14, 2009. This tranche consisted of the sale of 850,000 units at \$0.24 per unit, for proceeds of \$204,000. Each unit consists of one "flow-through" common share and one-half "non-flow-through" share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.35 until December 22, 2010.
- (d) On January 6, 2010, the Company announced the successful recompletion of an Edmonton sands natural gas well on its Sylvan Lake property in central Alberta. Pressure recorders have been retrieved from the wellbore and are being evaluated to determine the level of well productivity. The company anticipates the tie-in of the well in early 2010. Upon tie-in of this well Hemisphere Energy will have an interest in 10 producing wells in the Sylvan Lake area and is actively pursuing additional opportunities in the region.

The Company also announced it has attained its operator's licence for the province of Alberta, which provides the company the ability to perform oil and gas operations on its existing property in Sylvan Lake as well as new project areas.



formerly



Management Discussion and Analysis

For the Nine months ended November 30, 2009

HEMISPHERE ENERGY CORPORATION
(formerly Northern Hemisphere Development Corp.)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Nine months ended November 30, 2009

The following discussion and analysis of the operations, results, and financial position of Hemisphere Energy Corporation ("Hemisphere Energy" or the "Company"), for the nine months ended November 30, 2009 should be read in conjunction with the November 30, 2009 Consolidated Financial Statements and the related Notes. These documents are available at www.sedar.com. The effective date of this report is January 26, 2010.

Hemisphere Energy is engaged in the exploration, development and production of oil and natural gas. The Company currently has natural gas production from four Triassic Halfway wells in the Trutch area of northeastern British Columbia and nine Edmonton Sands wells in the Sylvan Lakes area of central Alberta. The Company is traded on the TSX Venture Exchange under the symbol HME.

FORWARD LOOKING STATEMENTS

This document contains forward-looking statements. Certain information regarding the Company presented in this document, including estimates, future plans, expectations, opinions, forecasts and projections may constitute forward-looking statements under applicable securities law and necessarily involve risk associated with oil & gas exploration and development. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. The reader is cautioned not to place undue reliance on this forward-looking information. Use of the term boe may be misleading, particularly if used in isolation. Petroleum and natural gas volumes and reserves are converted to a common unit of measure, referred to as a barrel of oil equivalent (boe), using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. This conversion ratio is based on the energy equivalency at the burner tip and does not necessarily represent a value equivalency at the wellhead.

OVERVIEW

Trutch (Northeast British Columbia)

Hemisphere Energy has a working interest varying from 10.5% - 35% in approximately 13,600 gross acres (~5,500 ha) of the Trutch Property which is located approximately 200 kilometres northwest of Fort St. John in British Columbia. Competitors to the east and south of the Trutch area have been actively exploring and developing the prolific Tommy Lakes Halfway gas field for a number of years. Hemisphere Energy currently has an interest in four Halfway gas wells in Trutch and recognizes multi-zone potential in the area. The Company is in full production with four natural gas wells and has received natural gas production revenue for its working interest in the Trutch property since February 2007.

Sylvan Lake (Central Alberta)

Hemisphere Energy acquired a working interest varying from 15% - 25% in approximately 1950 gross acres (790 ha) of the Sylvan Lake Property, on July 31, 2009, with an effective date of July 1, 2009. The Sylvan Lake property consists of multi-well natural gas production from numerous channel sands of the Edmonton Group and provides the Company with stable reserves and additional low-risk drilling locations. The Sylvan Lake property has approximately 205,000 thousand cubic feet of proven plus probable reserves (independently engineered, effective December 31, 2008) and 9 wells producing approximately 100 thousand cubic feet of natural gas per day, with identified low-risk drilling locations, low operating costs and year-round access.

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Oklahoma

The Company also has a small minority interest in certain oil and gas producing wells situated in the State of Oklahoma, USA. The interest in these properties was written down to nil in 1990 and the Company will not carryout any further expenditures on these wells.

RESULTS OF OPERATIONS

Comparison of the Six months ended November 30, 2009 and November 30, 2008

The Company reported a net loss for the nine months ended November 30, 2009 of \$508,328 or \$0.05 per share compared to \$348,982 or \$0.04 per share for the previous year. A synopsis of the revenues and related expenses incurred in the year are discussed below.

Revenues

During the nine months ended November 30, 2009, the Company had four Halfway wells onstream on the Trutch property in northeast British Columbia and nine producing wells in the newly acquired Sylvan Lake property in central Alberta which the Company took ownership effective for five participating months of the period. Hemisphere Energy's average production rate for the nine months ended November 30, 2009 was 22 boe per day (2008 – 19).

The Company generated total gross revenues of \$123,434 for the nine months ended November 30, 2009 (November 2008 - \$292,892). This is a decrease in gross revenues of \$169,458, which is due to the combination of reduced natural gas commodity prices during the year and the natural decline in production rates of the gas wells. The production revenue for the period consisted of \$89,873 for the northeastern British Columbia wells, \$1,355 for the Oklahoma wells, and \$32,206 for the newly acquired central Alberta wells.

Revenues	Amount	Units	\$/unit	boe/d	Revenue	
					Years Ended	
	Nine Months ended Nov 30, 2009				28-Feb-09	29-Feb-08
NGL's (bbl)	\$ 13,745	444.15	\$ 30.95	1.6	\$ 35,548	\$ 53,626
Natural gas (mcf)	108,334	33,480	\$ 3.24	20.3	305,516	371,545
USA - minority int.	1,355	n/a	n/a	n/a	13,304	13,790
Production revenue	\$ 123,434	6,024	\$ 20.49	21.9	\$ 354,368	\$ 438,961

Production Costs

Total production costs for the nine months ended November 30, 2009 were \$80,655 (November 2008 – \$134,535) or \$13.39 per boe (2008 - \$25.93). The net revenue for all the wells, after production, processing, transportation, marketing and royalty costs, was \$42,779 for the nine months ended November 30, 2009 (November 2008 – \$158,356).

The Company's production costs are categorized in three main areas of royalties, operating costs and transportation costs.

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Royalties for the nine months ended November 30, 2009 were \$18,191 or \$3.02 per boe, which represents 14.7% of revenues (November 2008 - \$72,381). This results in a decrease in royalties in the amount of \$54,190 or 74%, which is due primarily to reduced commodity prices and production decline as well as royalty rate reductions due to reclassification under British Columbia's marginal royalty incentive program. The Company incurred crown royalties with the Province of British Columbia at a rate of 20% on NGLs and an average of 6.25% on natural gas. Gross over-riding royalties are also included in the royalty expenses at an average of 11.3% of all BC production revenue.

Operating costs were \$53,474 for the period, which equates to \$8.88 per boe on a unit of production basis and 43.3% of revenues. These include all costs for gathering, processing, dehydration and compression of the gas, as well as marketing fees. Additional costs are also incurred periodically for maintenance and repairs.

Transportation expenses are expenses incurred by the Company to transport production volumes to the market in coordination with the Company's operator. Transportation costs were \$8,990 for the period, representing \$1.49 per boe.

Operating netback	Nine Months ended Nov 30, 2009			Year Ended February 29, 2008		
	Dollars	% of Revenue	\$/boe	Dollars	% of Revenue	\$/boe
Revenue	\$ 123,434	100%	\$ 20.49	\$ 438,961	100%	\$ 48.35
Royalties	18,191	14.7%	\$ 3.02	131,931	30.1%	\$ 14.53
Operating costs	53,474	43.3%	\$ 8.88	65,072	14.8%	\$ 7.17
Transportation	8,990	7.3%	\$ 1.49	10,082	2.3%	\$ 1.11
Production costs	80,655	65.3%	\$ 13.39	207,085	47.2%	\$ 22.81
Totals	\$ 42,779	34.7%	\$ 7.10	\$ 231,876	65.4%	\$ 25.54

General and Administrative

Total administrative expenses, before other items, increased by \$38,595 to \$549,098 for the nine months ended November 30, 2009 from \$509,503 at November 30, 2008. This is due primarily to changes in the following expenses:

Depletion, depreciation and accretion was recorded at \$179,532 for the nine months ended November 30, 2009 (November 2008 – \$160,345). Of this amount, \$153,139 is for depletion of the Company's gas producing wells. Depreciation was recorded as a credit in the amount of \$971 for the period, due to a reclassification of technical software from capital equipment to the property. An amount of \$728 was also recorded for accretion expense on the Company's asset retirement obligation for its producing wells.

Stock based compensation increased by \$25,726 to \$110,070 for the nine months ended November 30, 2009 from \$84,344 at November 30, 2008. The stock based compensation for the current period is from the granting of 475,000 incentive stock options on September 28, 2009.

Management fees increased by \$13,333 to \$75,000 for the nine months ended November 30, 2009 from \$61,667 at November 30, 2008, which is due primarily to the reinstatement of management fees paid to a director. Wages and benefits decreased by \$26,186 to \$48,829 for the nine months ended November 30, 2009 from \$75,015 at November 30, 2008 due to reduced administrative staff, as well as an allocation of \$23,750 of wages to deferred property costs related to eligible geological exploration work, for the period August to December, 2009.

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Professional fees reduced by \$23,759 to \$36,309 for the nine months ended November 30, 2009 from \$60,068 at November 30, 2008. This is due to reduced securities transactions undertaken in the current period, aside from cost of issuances as compared to the same period in the prior year.

Transfer agent and filing fees increased by \$24,140 to \$36,001 for the nine months ended November 30, 2009 from \$11,861 at November 30, 2008. This is primarily for additional fees for orchestrating the special shareholders' meeting regarding the corporate name change and share consolidation.

Bank interest and charges increased by \$9,265 to \$9,968 for the nine months ended November 30, 2009 from \$703 at November 30, 2008. This is due to interest recorded on the Part XII.6 tax assessment for prior years in the nine months ending November 30, 2009, as well as an adjustment by Canada Revenue Agency on the total amount assessed.

Other Items

Under other items, the Company recorded interest income in the amount of \$1,623 during the nine months ended November 30, 2009, which decreased by \$542 compared to the \$2,165 in the nine months ended November 30, 2008.

The Company also recorded flow through Part XII.6 tax in the amount of \$4,633 to accrue for amounts due at the rate of 3% per annum on unspent flow through funds during the current look-back year for capital raised during 2008 and renounced at December 31, 2008.

Comparison of the Three months ended November 30, 2009 and November 30, 2008

The Company reported a net loss for the three months ended November 30, 2009 of \$244,481 or \$0.02 per share compared to \$190,969 or \$0.02 per share for the previous year. A synopsis of the revenues and related expenses incurred in the year are discussed below.

Revenues

During the three months ended November 30, 2009, the Company had four Halfway wells onstream on the Trutch property in northeast British Columbia and nine producing wells in the newly acquired Sylvan Lake property in central Alberta which the Company took ownership effective July 1, 2009. Hemisphere Energy's average production rate for the three months ended November 30, 2009 was 27 boe per day (2008 – 19).

The Company generated total gross revenues of \$50,018 for the three months ended November 30, 2009 (November 2008 - \$73,441). This is a decrease in gross revenues of \$23,423, which is due to the combination of reduced natural gas commodity prices during the year and the natural decline in production rates of the gas wells. The production revenue for the period consisted of \$45,702 in natural gas, \$3,678 for natural gas liquids, and \$637 for the Oklahoma wells

Revenues	Units				Revenue	
	Q3	Q3	Q3	Q3	Years Ended	
Three Months ended Nov 30/09					28-Feb-09	29-Feb-08
NGL's (bbl)	\$ 3,678	171.99	\$ 21.39	1.9	\$ 35,548	\$ 53,626
Natural gas (mcf)	45,702	13,623	\$ 3.35	25.0	305,516	371,545
USA - minority int.	637	n/a	n/a	n/a	13,304	13,790
Production revenue	\$ 50,018	2,443	\$ 20.48	26.8	\$ 354,368	\$ 438,961

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Production Costs

Total production costs for the three months ended November 30, 2009 were \$33,323 (November 2008 – \$35,410) or \$13.64 per boe (2008 - \$23.04). The net revenue for all the wells, after production, processing, transportation, marketing and royalty costs, was \$16,695 for the three months ended November 30, 2009 (November 2008 – \$38,030).

The Company's production costs are categorized in three main areas of royalties, operating costs and transportation costs.

Royalties for the three months ended November 30, 2009 were \$5,063 or \$2.07 per boe, which represents 10.1% of revenues (November 2008 - \$18,013). This results in a decrease in royalties in the amount of \$12,950, which is due primarily to reduced commodity prices and production decline as well as royalty rate reductions due to reclassification under British Columbia's marginal royalty incentive program. The Company incurred crown royalties with the Province of British Columbia at a rate of 20% on NGLs and an average of 6.25% on natural gas. Gross over-riding royalties are also included in the royalty expenses at an average of 11.3% of all BC production revenue.

Operating costs were \$23,468 for the quarter, which equates to \$9.61 per boe on a unit of production basis. These include all costs for gathering, processing, dehydration and compression of the gas, as well as marketing fees. Additional costs are also incurred periodically for maintenance and repairs.

Transportation expenses are expenses incurred by the Company to transport production volumes to the market in coordination with the Company's operator. Transportation costs were \$4,792 for the period, representing \$1.96 per boe.

Operating netback	Dollars	% of	\$/boe	Dollars	% of	\$/boe
	Q3	Revenue	Q3	Year Ended 28-Feb-09	Revenue	
	Three Months ended Nov 30/09			Year Ended 28-Feb-09		
Revenue	\$ 50,018	100%	\$ 20.48	\$ 354,368	100%	\$ 54.28
Royalties	5,063	10.1%	\$ 2.07	72,684	20.5%	\$ 11.13
Operating costs	23,468	46.9%	\$ 9.61	64,648	18.2%	\$ 9.90
Transportation	4,792	9.6%	\$ 1.96	6,229	1.8%	\$ 0.95
Production costs	33,323	66.6%	\$ 13.64	143,561	40.5%	\$ 21.99
Total Netback	\$ 16,695	33.4%	\$ 6.84	\$ 210,807	59.5%	\$ 32.29

General and Administrative

Total administrative expenses, before other items, increased by \$31,154 to \$260,337 for the three months ended November 30, 2009 from \$229,183 at November 30, 2008. This is due primarily to changes in the following expenses:

Depletion, depreciation and accretion was recorded at \$73,781 for the three months ended November 30, 2009 (November 2008 – \$54,676). Of this amount, \$72,133 is for depletion of the Company's gas producing wells. Depreciation was recorded as in the amount of \$1,406 for the period. An amount of \$253 was also recorded for accretion expense on the Company's asset retirement obligation for its producing wells.

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Stock based compensation increased by \$25,726 to \$110,070 for the three months ended November 30, 2009 from \$84,344 at November 30, 2008. The stock based compensation for the current period is from the granting of 475,000 incentive stock options on September 28, 2009.

Wages and benefits decreased by \$17,805 to \$8,005 for the three months ended November 30, 2009 from \$25,810 at November 30, 2008 due to reduced administrative staff, as well as an allocation of \$23,750 of wages to deferred property costs related to eligible geological exploration work, for the period August to December, 2009. Management fees remained unchanged for the comparative periods.

Professional fees reduced by \$4,843 to \$11,615 for the three months ended November 30, 2009 from \$16,458 at November 30, 2008. This is due to reduced securities transactions, aside from cost of issuances, undertaken in the current period as compared to the same period prior year.

Travel and accommodation expenses decreased by \$3,646 to \$1,902 for the three months ended November 30, 2009 from \$5,548 at November 30, 2008. This is due to reduced travel and tradeshow expenses.

Other Items

Under other items, the Company recorded interest income in the amount of \$nil during the three months ended November 30, 2009, which decreased by \$184 compared to the \$184 in the three months ended November 30, 2008.

The Company also recorded flow through Part XII.6 tax in the amount of \$839 to accrue for amounts due at the rate of 3% per annum on unspent flow through funds for the period during the current look-back year for capital raised during 2008 and renounced at December 31, 2008.

SELECTED ANNUAL INFORMATION

The following are highlights of financial data on the Company for the most recently completed three financial years:

	Fiscal Year Ended February 28,		
	2009	2008	2007
(Loss) Income before Income Tax	\$ (1,703,726)	\$ (1,627,193)	\$ (2,545,928)
Net Loss	(1,637,743)	(1,627,193)	(2,545,928)
Loss Per Share	(0.17)	(0.18)	(0.06)
Total Assets	1,157,214	2,306,995	3,780,582
Total Liabilities	202,720	106,709	96,372
Working Capital	165,827	131,735	1,092,724

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SUMMARY OF QUARTERLY RESULTS

	2009	2009	2009	2009	2008	2008	2008	2008
	30-Nov	31-Aug	31-May	28-Feb	30-Nov	31-Aug	31-May	29-Feb
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue	50,018	40,620	32,796	61,476	73,441	105,616	113,835	119,481
Income (loss) before extraordinary items	-243,642	-133,516	-128,160	-229,844	-191,153	-96,386	-63,609	-445,641
Basic loss per share	-0.02	-0.01	-0.01	-0.02	0.00	0.00	0.00	-0.01
Diluted per share	-0.02	-0.01	-0.01	-0.02	0.00	0.00	0.00	-0.01
Net income (loss)	-244,481	-136,641	127,206	-1,288,765	-190,969	-95,375	-62,638	-1,427,280
Basic per share	-0.02	-0.01	0.01	-0.14	0.00	0.00	0.00	-0.03
Diluted per share	-0.02	-0.01	0.01	-0.14	0.00	0.00	0.00	-0.03

SHARE CAPITAL AND FINANCING ACTIVITIES

Effective April 27, 2009 the Company consolidated its issued capital stock on a 5 old for 1 new basis. The authorized capital stock remained unchanged. The share consolidation was reflected retroactively, which resulted in the Company's issued capital stock decreasing from 49,779,718 common shares to 9,955,944 common shares as at February 28, 2009. Further, the Company's transfer agent gave directive on April 27, 2009 for reduction by 2 shares for fractional adjustment on the share consolidation.

With share consolidation reflected retroactively to February 28, 2009, references to capital stock, options and warrants in these consolidated financial statements and all prior loss per share information were also retroactively restated to give effect to the share consolidation unless otherwise stated.

On July 30, 2009, the Company closed the first tranche of its private placement announced May 25, 2009. This tranche consisting of the sale of 765,000 units at \$0.25 per unit, for proceeds of \$191,250. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.35 until July 29, 2010.

On September 1, 2009, the Company closed the second tranche of its private placement announced May 25, 2009. This tranche consisting of the sale of 275,000 units at \$0.25 per unit, for proceeds of \$68,750 which were received by the Company during August 2009, and have been recorded as shares subscribed.

On December 1, 2009, the Company closed the first tranche of its private placement announced November 4, 2009. This tranche consisted of the sale of 3,925,000 units at \$0.20 per unit, for proceeds of \$785,000, of which \$100,000 was received by the Company prior to the quarter end and are recorded as shares subscribed on the balance sheet for the period ended November 30, 2009. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.30 until December 1, 2010.

On December 8, 2009, the Company closed the second tranche of its private placement announced November 4, 2009. This tranche consisted of the sale of 525,000 units at \$0.20 per unit, for proceeds of \$105,000. Each unit consists of one common share and one share purchase warrant, with each

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warrant entitling the holder to purchase one additional common share at a price of \$0.30 until December 8, 2010.

On December 23, 2009, the Company closed its flow-through private placement announced December 14, 2009. This tranche consisted of the sale of 850,000 units at \$0.24 per unit, for proceeds of \$204,000. Each unit consists of one "flow-through" common share and one-half "non-flow-through" share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.35 until December 22, 2010.

At January 26, 2009, the Company had 16,447,457 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has funded its operations through equity financing and the exercise of options and warrants. The Company had a working capital deficiency of \$81,028 at the period ended November 30, 2009. In order to finance corporate expenses and ongoing development of the Trutch and Sylvan Lake properties, as well as future growth opportunities, management has raised an additional \$1,094,000 in capital. This was raised subsequent to the period ended November 30, 2009 by way of brokered/non-brokered private placements, as noted in the section above.

RELATED PARTY TRANSACTIONS

These transactions are in the ordinary course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The following represents transactions entered into for the nine months ended November 30, 2009:

- (a) Management fees of \$75,000 (2008 - \$61,667) were charged by directors and officers of the Company;
- (b) Salaries and wages of \$45,000 (2008 - \$41,667) were charged by directors and officers of the Company; and
- (c) Included in rental expense is rental income of \$13,500 (2008 - \$13,500) received from a company with common directors for shared office facilities.

CORPORATE INTERNAL CONTROLS

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at November 30, 2009 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required. Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management believes the design to be sufficient and appropriate to provide such reasonable assurance.

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OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet transactions.

PROPOSED TRANSACTIONS

As at January 26, 2010, the Company does not have any proposed transactions to disclose.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are set out in Note 2 to the audited financial statements for the nine months ended November 30, 2009, and have been consistently followed in the preparation of the interim financial statements.

Estimates where significant management judgments are involved, relate to its petroleum and natural gas interests and other critical items as listed below:

(a) Petroleum and Natural Gas Interests

Change in accounting policy

During the 2009 year-end, the Company changed its method of accounting for oil and gas exploration and development activities from the full cost to the successful efforts method. The change in accounting policy will allow the Company to allocate expenditures incurred on oil and gas exploration on a well-by-well basis. This change will result in improved matching of costs and management estimates associated with impairment of oil and gas interests. The retrospective application of the successful efforts method did not result in any significant change in operating results or financial position for prior periods.

Under the successful efforts method, costs are initially capitalized as unproven property costs. Once proved reserves are discovered, the costs are reclassified to proved property costs. Exploration drilling costs are capitalized as suspended exploration well costs pending evaluation as to whether sufficient quantities of reserves have been found to justify commercial production. If commercial quantities of reserves are not found, exploration drilling costs are expensed. All exploratory wells are evaluated for commercial viability on a regular basis following completion of drilling. Exploration drilling costs remain capitalized if a determination is made that a sufficient quantity of reserves have been found and sufficient progress is being made to assess the reserves and the economic and operating viability. All other exploration costs, including geological and geophysical and annual lease rentals, are expensed to operations as incurred. All development costs are capitalized as proved property costs. Costs that directly relate to acquisition, exploration and development activities are capitalized.

Costs associated with unproven reserves are reviewed by management to determine whether they have become impaired. If impairment occurs, the carrying value of the related interest will be reduced to reflect the estimated net realizable value. The estimate will be based on the then current conditions. It is possible that changes could occur that would adversely affect management's estimates resulting in further write-downs of the carrying value of the interest. Any revenues earned on unproven properties are booked as a recovery of costs on that property.

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(b) Depletion

Depletion of petroleum and natural gas interests and depreciation of production equipment are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by independent engineers. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the cost of undeveloped properties until it is determined that proved reserves are attributable to the property or impairment has occurred.

(c) Impairment of Long-Lived Assets

The costs associated with proved reserves are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves less unproved properties, net of any impairment, exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from proved and probable reserves less unproved properties, net of any impairment. Cash flows are calculated based on estimated future product prices and discounted using the credit adjusted risk-free interest rate. Oil and natural gas assets are evaluated on an annual basis to determine whether the costs are recoverable and do not exceed the fair value of the properties.

(d) Joint Interest Operations

The Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(e) Equipment

Equipment is recorded at cost. Once the assets are in use, amortization is provided over their estimated useful lives on a declining-balance basis at the following annual rates:

Computers	-	30
Equipment	-	20
Furniture	-	20

In the year of acquisition, amortization is recorded using the half-year rule.

(f) Asset Retirement Obligations ("ARO")

The Company's operations are subject to various laws and regulations for federal and regional jurisdictions governing the protection of the environment. These laws are continually changing. The Company expects to make, in the future, expenditures that comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction, and normal operation of oil and gas properties, plant and equipment.

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The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(g) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points and rates, and collectability is reasonably assured. The costs associated with delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded. Interest income is recorded on an accrual basis at the stated rate of interest of term deposits over the term to maturity.

(h) Future Accounting Changes
International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The IFRS standards will be effective for the Company for interim and fiscal period reporting commencing March 1, 2011. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended February 28, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

During the recent quarter, the Company's Chief Financial Officer and members of the Audit Committee have been keeping abreast of the intricacies and timing for implementation of IFRS, by updating themselves through attendance at various seminars by industry professionals

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and amounts owing to related parties. Terms of the financial instruments are fully disclosed in the Company's consolidated financial statements. Management's opinion is that the Company is not exposed to significant interest, currency, or credit risks arising from its financial instruments and that, unless otherwise noted, their fair values approximate their carrying values.

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RISKS

Oil and gas exploration and development involves a high degree of risk and many properties are ultimately not developed to a producing stage. There can be no assurance that the Company's future exploration and development activities will result in discoveries of commercial bodies of oil and gas. Whether an oil and gas property will be commercially viable depends on a number of factors including the particular attributes of the reserve and its proximity to infrastructure, as well as commodity prices and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, and environmental protection. The exact effect of these factors cannot be accurately predicted, and the combination of these factors may result in an oil and gas property not being profitable.

DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The following table is a breakdown of the material components listed for the three most recently completed financial years:

	Fiscal Year Ended February 28,		
	2009	2008	2007
Capitalized acquisition, exploration and development costs	\$68,680	\$794,955	\$1,559,142
Stock-based compensation	84,344	143,269	36,487
Shares issued for cash, net of issue costs	373,590	0	121,650
General and administration costs	707,454	767,765	350,483

CONTINGENCY

In March 2005, the Company received a notice from the operator of the deep test well at the Bougie Trutch property requesting additional funding in the amount of \$160,214 for payment of expenditures. In 2007, the Company requested an external audit of this well from the operator as it is the Company's position that the operator's request is without merit. The Company believes it has not received sufficient documentation from the operator to justify payment of the expenditures on the premise.

SUBSEQUENT EVENTS

- (a) On December 1, 2009, the Company closed the first tranche of its private placement announced November 4, 2009. This tranche consisted of the sale of 3,925,000 units at \$0.20 per unit, for proceeds of \$785,000, of which \$100,000 was received by the Company prior to the quarter end and are recorded as shares subscribed on the balance sheet for the period ended November 30, 2009. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.30 until December 1, 2010.
- (b) On December 8, 2009, the Company closed the second tranche of its private placement announced November 4, 2009. This tranche consisted of the sale of 525,000 units at \$0.20 per unit, for proceeds of \$105,000. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.30 until December 8, 2010.

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- (c) On December 23, 2009, the Company closed its flow-through private placement announced December 14, 2009. This tranche consisted of the sale of 850,000 units at \$0.24 per unit, for proceeds of \$204,000. Each unit consists of one "flow-through" common share and one-half "non-flow-through" share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.35 until December 22, 2010.
- (d) On January 6, 2010, the Company announced the successful recompletion of an Edmonton sands natural gas well on its Sylvan Lake property in central Alberta. Pressure recorders have been retrieved from the wellbore and are being evaluated to determine the level of well productivity. The company anticipates the tie-in of the well in early 2010. Upon tie-in of this well Hemisphere Energy will have an interest in 10 producing wells in the Sylvan Lake area and is actively pursuing additional opportunities in the region.

The Company also announced it has attained its operator's licence for the province of Alberta, which provides the company the ability to perform oil and gas operations on its existing property in Sylvan Lake as well as new project areas.

LIST OF DIRECTORS AND OFFICERS

Charles O'Sullivan, B.Sc., Director and Chairman
Don Simmons, B.Sc., P.Geol, Director, President and CEO
Dorlyn Evancic, CGA, Chief Financial Officer
Frank Borowicz, QC, CA (Hon), Director
Ken Maddison, FCA, Director
Gregg Vernon, B.Sc., P.Eng, Director
Greg Sadler, P.Eng., Director
Bruce McIntyre, P.Geol., Director

ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com.