

**NORTHERN HEMISPHERE
DEVELOPMENT CORP.**

**Consolidated Financial Statements
February 28, 2005 and February 29, 2004**

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF NORTHERN HEMISPHERE DEVELOPMENT CORP.

We have audited the consolidated balance sheets of Northern Hemisphere Development Corp. as at February 28, 2005 and February 29, 2004 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2005 and February 29, 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe" (signed)

Chartered Accountants

Vancouver, British Columbia
June 24, 2005

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Consolidated Balance Sheets

	February 28, 2005	February 29, 2004
Assets		(note 3)
Current		
Cash	\$ 320,742	\$ 302,563
Cash, exploration funds	1,239,707	156,526
Accounts receivable and prepaid expenses	55,157	25,708
	1,615,606	484,797
Due from Related Parties (note 8)	157,227	-
Reclamation Deposit	5,000	5,000
Property and Equipment (note 5)	19,177	6,412
Investment in and Expenditures on Resource Properties (notes 6 and 7)	3,474,706	416,684
	\$5,271,716	\$ 912,893
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 108,238	\$ 186,442
Due to related parties (note 8)	5,174	-
	113,412	186,442
Shareholders' Equity		
Capital Stock (note 7)	16,187,216	12,412,563
Contributed Surplus	1,020,562	99,062
Deficit	(12,049,474)	(11,785,174)
	5,158,304	726,451
	\$5,271,716	\$ 912,893

Approved on behalf of the Board:

"C.N. O'Sullivan"
C.N. O'Sullivan, Director

"J.F. Callaghan"
J. F. Callaghan, Director

See notes to consolidated financial statements.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Consolidated Statements of Operations and Deficit
Years Ended

	February 28, 2005	February 29, 2004 (note 3)
Revenues		
Oil and gas	\$11,274	\$15,046
Interest	2,845	978
	14,119	16,024
Expenses		
Administrative (note 8)	578,896	350,684
Interest	1,466	34,000
Amortization	1,536	458
	581,898	385,142
Other Items		
Stock-based compensation	921,500	99,062
Gain on sale of property	-	(234,969)
Gain on sale of securities	-	(284,258)
	921,500	(420,165)
Foreign Exchange Loss (Gain)	5,416	(2,198)
Write-off of Accounts Receivable	-	2,355
	926,916	(420,008)
Income (Loss) Before Income Tax	(1,494,695)	50,890
Income Tax Recovery (Expense)		
Current	35,895	(80,000)
Future	1,194,500	-
Net Loss For Year	(264,300)	(29,110)
Deficit, Beginning of Year, as previously stated	(11,686,112)	(11,756,064)
Adjustment for Change in Accounting Policy	(99,062)	-
Deficit, Beginning of Year, as restated	(11,785,174)	(11,756,064)
Deficit, End of Year	\$(12,049,474)	\$(11,785,174)
Net Income (Loss) Per Share	\$(0.02)	\$0.00
Weighted Average Number of Shares Outstanding	15,517,716	8,515,510

See notes to consolidated financial statements.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Consolidated Statements of Cash Flows
Years Ended

	February 28, 2005	February 29, 2004 (note 3)
Operating Activities		
Net income (loss)	\$(264,300)	\$(29,110)
Items not involving cash		
Stock-based compensation	921,500	99,062
Write-off of accounts receivable	-	2,355
Gain on sale of property	-	(234,969)
Gain on sale of securities	-	(284,258)
Unrealized foreign exchange gain	-	(356)
Amortization	1,536	458
Future income tax recovery	(1,194,500)	-
Operating Cash Flow	(535,764)	(446,818)
Changes in Non-Cash Working Capital		
Due to related parties	5,174	-
Accounts receivable	(29,449)	(14,253)
Accounts payable and accrued liabilities	(78,204)	44,892
	(102,479)	30,639
Cash Used in Operating Activities	(638,243)	(416,179)
Investing Activities		
Purchase of reclamation deposit	-	(5,000)
Purchase of equipment	(14,301)	(6,870)
Investment in and expenditures on resource properties, net of recoveries	(3,058,022)	(322,275)
Proceeds from sale of property	-	337,131
Proceeds from sale of securities	-	577,453
Cash Provided by (Used in) Investing Activities	(3,072,323)	580,439
Financing Activities		
Shares issued for cash, net of issue costs	4,969,153	280,510
Advances to related parties	(157,227)	-
Cash Provided by Financing Activities	4,811,926	280,510
Inflow of Cash	1,101,360	444,770
Cash, Beginning of Year	459,089	14,319
Cash, End of Year	\$1,560,449	\$459,089
Supplemental Cash Flow Information		
Shares issued for property option payment	\$364,750	\$10,000
Interest received	\$2,810	\$978
Interest paid	\$1,466	\$1,117
Income tax paid	\$ -	\$ -

See notes to consolidated financial statements

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

1. NATURE AND CONTINUANCE OF OPERATIONS

Northern Hemisphere Development Corp. (the "Company") was incorporated under the laws of British Columbia. It is an exploration stage public Company whose principal business activity is the exploration for and development of natural resource properties. There has been no significant revenue generated from these activities to date.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has accumulated losses of \$12,049,474 since inception. The Company's ability to meet its obligations and maintain its operations is contingent upon successful completion of additional financing arrangements and/or the ability to generate profitable production in the future.

The Company is in the process of exploring and developing properties and has not determined whether these properties contain reserves which are economically recoverable. The recoverability of amounts shown for resource properties and related deferred exploration costs is dependent on the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their exploration and development and future profitable production from the properties or proceeds from their disposition.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

These consolidated financial statements include the accounts of Northern Hemisphere Development Corp. and its wholly-owned subsidiary, Hemisphere Development Corporation, a US corporation. All significant intercompany balances and transactions are eliminated.

(b) Investment in and expenditures on resource properties

Acquisition costs of resource properties, rights and options together with direct exploration and development expenditures thereon are deferred in the accounts on a property-by-property basis. The expenditures related to a property from which there is production will be amortized using the unit-of-production method based upon the estimated proven reserves. When there is little prospect of further work on a property being carried out by the Company, the costs of that property are charged to operations.

(c) 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;

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (Continued)

(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 average rate of exchange for the year.

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

(d) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or 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 tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided against future tax assets when it is more likely than not that the tax asset will not be utilized.

(e) Flow-through shares

The Company finances a portion of its exploration program with flow-through common shares issued. Income tax deductions relating to these expenditures are claimable only by the investors. Proceeds from common shares issued pursuant to flow-through financing are credited to capital stock. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. On the date that the Company renounces flow-through expenditures to the investor and where the Company has sufficient available tax losses or pools of tax deductions, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, is recorded as a recovery of income taxes in the statement of operations.

This is a change in accounting policy that has been applied prospectively, effective March 19, 2004 in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook EIC-146.

(f) Net income (loss) per share

Net income (loss) per share computations are based on the weighted average number of common shares outstanding during the year. Diluted loss per share has not been presented for 2004 as the outstanding stock options and warrants are anti-dilutive for those years. For 2005, diluted loss per share has not been presented as, per CICA recommendations, where the average market price of the common shares outstanding during the year does not exceed the exercise price of the options or warrants, such options and warrants are not dilutive.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Asset retirement obligations

Effective March 1, 2004 the Company adopted the new Canadian accounting requirements for asset retirement obligations. The new standard requires liability recognition at fair value for retirement obligations associated with long-lived assets. The asset retirement cost, equal to the fair value of the retirement obligation is capitalized as part of the cost of the related asset. Amounts are recorded once they become known or can be readily estimated.

(h) Use of estimates

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

(i) Stock-based compensation

Effective March 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3870, "Stock-Based compensation and Other Stock-Based Payments" ("HB 3870"). HB 3870 requires the use of the fair-value method to calculate all stock-based compensation associated with granting stock options to employees and directors, and the inclusion of that expense in the statements of operations. Prior to March 1, 2004 the Company disclosed the effect of the fair-value method in the notes to the financial statements and did not recognize the stock-based compensation related to stock options granted to employees and directors in the statement of operations. Under the revised accounting policy, the Company measured stock-based compensation on the date of the grant and recognized this cost over the vesting period of the option in results from operations. As a result of this change in accounting, the opening deficit was restated on a retroactive basis to show the effect of compensation expense of \$99,062 associated with stock option grants to employees and directors in 2004. Accordingly, contributed surplus was increased by \$99,062.

(j) Share issuance costs

Share issuance costs are netted against capital stock proceeds.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Property and equipment

Property and equipment are recorded at cost. Amortization is provided, once the assets are in use, over their estimated useful lives on a declining balance basis at the following annual rates:

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

3. COMPARATIVE FIGURES

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

4. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying values of cash, accounts receivable, due from related parties, reclamation deposit, due to related parties and accounts payable and accrued liabilities approximate their fair values because of the short maturity of these financial instruments.

(b) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(c) Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and reclamation deposit. These are placed with well capitalized, high quality financial institutions.

NORTHERN HEMISPHERE DEVELOPMENT CORP.**Notes to Consolidated Financial Statements****Years Ended February 28, 2005 and February 29, 2004****5. PROPERTY AND EQUIPMENT**

2005			
	Cost	Accumulated Amortization	Net
Computers	\$10,056	\$ -	\$10,056
Furniture	2,556	-	2,556
Equipment	8,559	1,994	6,565
	\$21,171	\$1,994	\$19,177

2004			
	Cost	Accumulated Amortization	Net
Equipment	\$6,870	\$458	\$6,412

NORTHERN HEMISPHERE DEVELOPMENT CORP.

Notes to Consolidated Financial Statements

Years Ended February 28, 2005 and February 29, 2004

6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES

	Sunrise Properties, Northwest Territories <small>(note 6 (a))</small>	Northstar-Kaza Properties, British Columbia <small>(note 6 (b))</small>	Oil and Gas Wells <small>(note 6 (c))</small>	Total
Balance, February 28, 2003	\$ 400,787	\$78,616	\$ 7	\$ 479,410
Acquisition Costs	-	25,000	-	25,000
Exploration Expenditures				
Assays	-	22,214	-	22,214
Equipment repair and rental	-	30,294	-	30,294
Exploration - other	-	47,717	-	47,717
Geographical consulting	-	190,210	-	190,210
Staking costs	-	3,800	-	3,800
Mobilization and demobilization	-	13,331	-	13,331
Property taxes	-	1,124	-	1,124
Mapping	-	2,895	-	2,895
Drilling and sampling	-	1,483	-	1,483
	-	313,068	-	313,068
	-	338,068	-	338,068
Write-off, Sale of Resource Properties	(400,787)	-	(7)	(400,794)
Balance, February 29, 2004	\$ -	\$ 416,684	\$ -	\$ 416,684

NORTHERN HEMISPHERE DEVELOPMENT CORP.

Notes to Consolidated Financial Statements

Years Ended February 28, 2005 and February 29, 2004

6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)

	Sunrise Properties, Northwest Territories (note 6 (a))	Northstar-Kaza Properties, British Columbia (note 6 (b))	Oil and Gas Wells (note 6 (c))	Total
Balance, February 29, 2004	\$ -	\$ 416,684	\$ -	\$ 416,684
Acquisition Costs	-	25,000	1,905,887	1,930,887
Exploration Expenditures				
Administration	-	20,912	-	20,912
Assays	-	32,275	-	32,275
Equipment repair and rental	-	199,347	-	199,347
Exploration - other	-	15,331	-	15,331
Geographical consulting	-	152,814	28,625	181,439
Staking costs	-	30,223	-	30,223
Mobilization and demobilization	-	13,649	-	13,649
Property taxes	-	3,384	-	3,384
Drilling and sampling	-	150,597	-	150,597
Camp costs	-	486,963	-	486,963
Mining exploration tax credit	-	(6,985)	-	(6,985)
	-	1,098,510	28,625	1,127,135
	-	1,123,510	1,934,512	3,058,022
Balance, February 28, 2005	\$ -	\$ 1,540,194	\$ 1,934,512	\$ 3,474,706

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)

(a) Sunrise properties, Northwest Territories

Pursuant to an agreement dated November 12, 1987, the Company received an interest of 51.73% in a block of six claims, totalling 4,005 acres, located approximately 70 miles east-northeast of the City of Yellowknife, Northwest Territories known as the Sunrise properties.

During the year ended February 29, 2004, the Company sold its 51.73% interest in the Sunrise properties for total consideration of US \$252,442 cash and 42,938 common shares of Silver Standard Resources Inc. On the sale closing date, the shares were valued at approximately CDN \$6.82 per share for total share consideration of approximately CDN \$293,000.

(b) Northstar - Kaza properties, British Columbia

Pursuant to an option agreement dated March 13, 2002, the Company can acquire a 100% interest in 33 claims located in the Omineca Mining Division of British Columbia, upon completion of the following:

- (i) Payment of \$15,000 and issuance of 100,000 common shares within 10 business days of receiving TSX Venture Exchange approval; (done)
- (ii) Payment of \$15,000, issuance of 100,000 common shares, and incurring a minimum of \$75,000 of expenses on the property on or before April 18, 2003; (done)
- (iii) Payment of \$15,000, issuance of 100,000 common shares, and incurring an additional \$100,000 of expenses on the property on or before April 18, 2004; (done)
- (iv) Payment of \$15,000, issuance of 100,000 common shares, and incurring an additional \$125,000 of expenses on the property on or before April 18, 2005; (done) and
- (v) Payment of \$15,000, issuance of 300,000 common shares, and incurring an additional \$200,000 of expenses on the property on or before April 18, 2006.

Once the Company has exercised its option, the vendor will be entitled to a 3% net smelter return ("NSR"), which will be paid in instalments of \$15,000 annually commencing April 18, 2007 until such time as the Company publicly announces that it will be placing the property into commercial production, at which time the requirement to pay an advance NSR payment shall terminate. The Company may purchase the first two percent of the NSR for \$1,000,000 for each percentage point and the remaining one percent may be purchased for \$2,000,000. Should the Company decide to place the property into commercial production, it shall issue to the vendor a total of 500,000 shares within 15 days of public announcement of its intentions.

NORTHERN HEMISPHERE DEVELOPMENT CORP.

Notes to Consolidated Financial Statements

Years Ended February 28, 2005 and February 29, 2004

6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)

(b) Northstar - Kaza properties, British Columbia (Continued)

In addition, during the year ended February 28, 2003, the Company acquired a 100% interest in 6 claims adjacent to the Northstar - Kaza properties discussed above for staking costs of \$11,720. The claims are in good standing until March 28, 2011.

(c) Oil and Gas Wells

Oklahoma, USA

The Company has a small minority interest in certain oil and gas producing wells situated in the State of Oklahoma, USA. The interest is held in the Company's US subsidiary, Hemisphere Development Corporation. During the year ended February 28, 2005, the Company realized revenue from the oil and gas holdings of \$11,274 (2004 - \$15,046). The interest in these properties is recorded at nominal value. The Company does not plan any further expenditures on these properties.

British Columbia, Canada

During the year ended February 28, 2005, the Company acquired a 17.5% working interest in 26 sections of land in Northeastern British Columbia. The Company paid \$1,425,000 cash for this interest and issued 900,000 shares and paid cash for finders fees totalling \$437,250.

(d) Elk 1 Claims, Northwest Territories

The Company also maintains a 50% interest in one lithium claim known as the Elk 1 claim, located 115 km east-southeast of Yellowknife, Northwest Territories. The claim was written off the books in a prior year and the Company has no plans to incur any further expenditures on this property. The claim is in good standing until 2009. During the year ended February 28, 2005, management of the Company decided to abandon the property.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

7. CAPITAL STOCK

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

	2005		2004	
	Number of Shares	Amount	Number of Shares	Amount
Balance, Beginning of Year	10,131,123	\$12,412,563	8,106,456	\$12,122,053
Issued During the Year				
For Cash, Pursuant to				
Private Placements (Note 7(d))	20,106,252	4,335,925	1,924,667	288,700
Share purchase options (Note 7(e))	270,000	39,750	-	-
Share purchase warrants (Note 7(f))	1,595,634	313,212	-	-
Pursuant to Resource Property Options and Acquisition (Note 7(c))	1,000,000	364,750	100,000	10,000
Share Issue Costs	-	(84,484)	-	(8,190)
Surrender of a Future Tax Asset related to Flow-Through Shares	-	(1,194,500)	-	-
Balance, End of Year	33,103,009	\$16,187,216	10,131,123	\$12,412,563

The Company has issued common shares for resource properties pursuant to the terms of certain option agreements described in note 6. These shares were issued at a price equal to the Company's market price on the date of the issue.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

7. CAPITAL STOCK (Continued)

- (c) Shares issued pursuant to resource property option

During each of the years ended February 28, 2005 and February 29, 2004, the Company issued 100,000 common shares at \$0.10, pursuant to the terms of a resource property option agreement as described in note 6(b).

During the year ended February 28, 2005 the Company issued 900,000 shares at a value of \$309,750 to acquire a 17.5% interest in an oil and gas property described in note 6(c). A finders fee of 200,000 shares at a value of \$45,000 was paid in respect to this acquisition.

- (d) Private placement of units

During fiscal 2005, the Company completed the following share transactions:

- (i) A non-brokered private placement for 1,059,333 units at \$0.15 per unit. Each unit consists of one flow through share and one-half share purchase warrant. Each whole warrant and \$0.20 entitles the holder thereof to purchase an additional common share. The warrants expired on June 7, 2005. The Company received proceeds of \$158,900 pursuant to the private placement.
- (ii) A non-brokered private placement for 5,000,000 units at \$0.20 per unit. Each unit consists of one common share and one share purchase warrant. Each warrant and \$0.30 entitles the holder thereof to purchase an additional common share. The warrants expire December 24, 2005. 3,925,000 shares are flow-through shares. The Company received proceeds of \$1,000,000 pursuant to this private placement.
- (iii) A non-brokered private placement for 2,270,075 units at \$1.00 per unit. Each unit consists of four common shares and one share purchase warrant. Each warrant and \$0.35 entitles the holder thereof to acquire one additional common share. 1,091,500 warrants expire on December 30, 2005 and 1,178,575 warrants expire on January 21, 2006. 1,638,806 units consist of flow-through shares. The Company received proceeds of \$2,270,075 pursuant to this private placement.
- (iv) A non-brokered private placement for 306,000 units at \$1.00 per unit. Each unit consists of four flow-through shares and one share purchase warrant. Each warrant and \$0.35 entitles the holder thereof to acquire one additional common share. 200,000 warrants expire on December 30, 2005 and 106,000 warrants expire on January 10, 2006. In addition the Company issued 80,000 warrants as a finders fee exercisable at \$0.35 to December 30, 2005 and 9,619 common shares as a finders fee. The Company received proceeds of \$306,000 pursuant to this private placement.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

7. CAPITAL STOCK (Continued)

- (d) Private placement of units (Continued)
 - (v) A non-brokered private placement for 820,000 units at \$0.20 per unit. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant and \$0.30 entitles the holder thereof to purchase an additional common share. 350,000 warrants expire on October 22, 2005 and 60,000 warrants expire on November 10, 2005. 465,000 units consist of flow-through shares. The Company received proceeds of \$164,000 pursuant to this private placement.
 - (vi) A non-brokered private placement for 2,913,000 units at \$0.15 per unit. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant and \$0.20 entitles the holder thereof to purchase an additional common share. The warrants expire on August 5, 2005. 2,330,000 units have flow-through features. In addition the Company issued 225,000 finders warrants. Each warrant and \$0.15 entitles the finder to acquire 225,000 units for a two year period. Each unit has the same terms as the non-brokered private placement. The Company received proceeds of \$436,950 pursuant to the private placement.

During fiscal 2004 the Company completed the following share transactions:

- (i) A private placement for the sale of 1,849,667 flow-through units and 75,000 non-flow through units at the price of \$0.15 per unit for gross proceeds of \$288,700.
- (ii) Each flow-through unit is comprised of one flow-through common share and one-half of one non-transferable flow through warrant. Each full flow-through warrant will entitle the holder to purchase one additional flow-through common share at the price of \$0.20 per share, expiring on February 6, 2005.
- (iii) Each non flow-through unit is comprised of one non flow-through common share and one-half of one non-transferable non flow-through warrant. Each full non flow-through warrant will entitle the holder to purchase one additional non flow-through common share at the price of \$0.20 per share, expiring on February 6, 2005.
- (iv) As part of the private placement, the Company incurred share issuance costs of \$8,190. In addition, the agent received 109,200 "broker's options" which entitle the holder to subscribe for one unit consisting of one common share (non flow-through) and one-half share purchase warrant at a price of \$0.20 per unit. Each full warrant will entitle the holder to subscribe for one common share (non flow-through) at a price of \$0.20 per share until February 6, 2005.
- (v) Following the year-end, an additional 100,000 shares were issued for proceeds of \$27,900.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
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7. CAPITAL STOCK (Continued)

(e) Stock options

The Company has a formal plan for the granting of stock options in the form of a Rolling Stock Option Plan. The Company received TSX Venture Exchange (TSX) approval of this plan on November 23, 2004. Pursuant to the policies of the TSX, the Company may 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.

For the year ended February 28, 2005 the Company recorded stock-based compensation expense of \$921,500 related to options granted to directors, officers and employees.

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2005	2004
Expected life (years)	3	3
Interest rate	3.7%	2.5%
Volatility	145.00%	141.67%
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, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock option.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

7. CAPITAL STOCK (Continued)

(e) Stock options (Continued)

Details of the status of the Company's stock options as at February 28, 2005 and February 29, 2004 and changes during the years then ended are as follows:

	2005		2004	
	Shares	Exercise Price	Shares	Exercise Price
Options outstanding and exercisable, Beginning of Year	720,456	\$ 0.14	100,000	\$ 0.14-0.25
Granted	2,822,461	0.29	720,456	0.14
Exercised	(270,000)	0.15	-	-
Expired	(170,000)	0.15	(100,000)	0.14
Options outstanding and exercisable, end of year	3,102,917	\$0.28	720,456	\$0.14

Share purchase options are outstanding as follows:

Expiry Date	Exercise Price	Number of Shares	
		2005	2004
October 21, 2006	\$0.14	420,456	720,456
June 23, 2007	\$0.15	393,589	-
December 9, 2007	\$0.20	522,020	-
January 18, 2008	\$0.33	1,164,772	-
January 31, 2008	\$0.40	602,080	-
		3,102,917	720,456

NORTHERN HEMISPHERE DEVELOPMENT CORP.

Notes to Consolidated Financial Statements

Years Ended February 28, 2005 and February 29, 2004

7. CAPITAL STOCK (Continued)

(f) Warrants outstanding

Expiry Date	Exercise Price	Number of Shares	
		2005	2004
November 1, 2004	\$ 0.30	-	324,000
November 1, 2004	\$ 0.15	-	97,200
December 16, 2004	\$ 0.15	-	71,100
December 16, 2004	\$ 0.30	-	237,000
February 6, 2005	\$ 0.20	-	962,333
June 7, 2005	\$ 0.20	211,667	-
August 5, 2005	\$ 0.20	1,242,000	-
October 22, 2005	\$ 0.30	350,000	-
August 30, 2005	\$ 0.20	290,000	-
November 10, 2005	\$ 0.30	60,000	-
December 24, 2005	\$ 0.30	4,975,000	-
December 30, 2005	\$ 0.35	1,091,500	-
January 21, 2006	\$ 0.35	1,178,575	-
December 30, 2005	\$ 0.35	280,000	-
January 10, 2006	\$ 0.35	106,000	-
		9,784,742	1,691,633

8. RELATED PARTY TRANSACTIONS

- (a) Management fees of \$40,000 (2004 - \$60,147), were charged by a Company which was controlled by the family of a director, of which nil (2004 - \$5,000) was included in accounts payable and accrued liabilities at year end. In addition, fees for consulting services of \$60,000 (2004 - \$60,000) were paid to a director.
- (b) Included in accounts payable and accrued liabilities is nil (2004 - \$31,340) due to directors or companies controlled by directors of the Company and nil (2004 - \$14,392) due to a Company with common directors.
- (c) Salary and benefits of \$13,479 (2004 - \$10,181) were paid to directors and officers of the Company.
- (d) Rent expense of \$17,702 (2004 - \$6,370) was charged by a Company with common directors.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
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8. RELATED PARTY TRANSACTIONS (Continued)

- (e) The amounts due from/to related parties, which are non-interest bearing, unsecured and due on demand, are comprised of the following:

	2005	2004
Receivable		
Due from companies with common directors	\$ 116,647	\$ -
Due from directors	40,580	-
	\$ 157,227	\$ -
Payable		
Due to companies with common directors	\$ 5,174	\$ -
	\$ 5,174	\$ -

9. INCOME TAXES

- (a) The Company has operating losses which may be carried forward to apply against future years' income for Canadian income tax purposes. The tax effect has not been recorded in the financial statements. These losses expire as follows:

Available to	Amount
2006	186,187
2007	133,036
2008	186,846
2009	198,221
2010	205,870
2011	210,022
2015	604,170
	\$1,724,352

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2005	2004
	35.62%	35.62%
Income tax benefit computed at Canadian statutory rates	\$ 592,198	\$ (20,198)
Temporary differences not recognized in year	837,582	7,819
Unrecognized tax loss	(235,280)	12,379
	\$1,194,500	\$ -

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
Years Ended February 28, 2005 and February 29, 2004

9. INCOME TAXES (Continued)

(b) The components of the future income tax assets are as follows:

	2005	2004
Future Income Tax Assets		
Non-capital loss carry-forwards	\$ 1,724,352	\$ 1,371,782
Capital loss carry-forwards	103,207	103,207
Excess of undepreciated capital cost over net book value of fixed assets	146,412	144,875
Deductible finance fees	(82,330)	(21,295)
Canadian exploration expenditures (net of renounced expenditures)	(1,450,650)	544,440
	440,991	2,143,009
Approximate tax rate	35.62%	35.62%
	157,081	763,340
Less: Valuation allowance	(157,081)	(763,340)
	\$ -	\$ -

The valuation allowance reflects the Company's estimate that the tax assets will likely not be realized and, consequently, have not been recorded in these financial statements.

NORTHERN HEMISPHERE DEVELOPMENT CORP.

Form 51-102F1

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal year ended February 28, 2005**

The following discussion and analysis of the operations, results, and financial position of the Company for the fiscal year ended February 28, 2005 should be read in conjunction with the February 28, 2005 Audited Financial Statements and the related Notes. The effective date of this report is June 27, 2005.

Forward Looking Statements

Except for historical information, the Management's Discussion and Analysis ("MD&A") may contain forward looking statements. These statements involve known and unknown risks, uncertainties, and other factor that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward looking statements.

Business Overview

The Company's principal business activities are the exploration and development of mineral and oil and gas properties. The Company is in the process of exploring and developing its resource properties and has not yet determined whether its resource properties contain reserves that are economically viable. The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves in both mineral and oil and gas, the ability of the Company to obtain the necessary financing to complete development, confirmation of the Company's interest in the underlying mineral claims and oil and gas leases and upon future profitable production or sufficient proceeds from the disposition of its resource properties. The Company is continually investigating new exploration opportunities, and resource exploration is carried out on properties identified by management of the Company as having favorable exploration potential. Interests in such properties are acquired in various ways. In some cases, the Company, through its own efforts, stake mineral claims or acquires exploration permits. In other cases the Company acquires interest in mineral and oil and gas properties from third parties. An acquisition from a third party for mineral properties is typically made by way of an option agreement, which requires the Company to make specific option payments and to incur a specified amount of exploration and development expenditures. Once having incurred the specified exploration expenditures, the parties will enter into a joint venture requiring each party to contribute towards future exploration and development costs, based on its percentage interest in the property, or suffer dilution of its interest. Acquisition of oil and gas properties is typically done through a participation agreement whereby the Company will pay a specific dollar amount to earn a specific interest.

The Company advances its projects to varying degrees by prospecting, mapping, geophysics and drilling. Once a property is determined to have limited exploration potential, the property is abandoned or sold. In cases where exploration work on the property reaches a stage where the expense and risk of further exploration and development are too high, the Company may seek a third party to earn an interest by furthering the development. Optioning a property to a third party allows the Company to retain an interest in further exploration and development while limiting its obligation to commit large amount of capital to any one project. For oil and gas properties, once the wells have been drilled and if it is determined to be a dry hole or non-commercial, the Company will abandon the well and write off the associated costs.

The resource sector is high risk and most mineral exploration projects will not become mines. A greater chance exists for an oil and gas property to become a producer.

Current Operations

During fiscal 2005 the Company focused on two main projects. The first was the Northstar-Kaza property located in the Omineca Mining Division of British Columbia. The other main project was the participation in a Slave Point Natural Gas Test well located in Northeastern British Columbia.

Kaza - Northstar

During the summer of 2004 the Company conducted a diamond drilling program on the Kaza project area. The program consisted of five exploration style diamond drill holes for 3,533 feet (1076.9M) testing down-dip extension and structural controls of surface copper-silver-gold mineralization along the "Main Trend" and "Hornblendite Zones." The drill holes returned intercepts ranging from 0.086-0.229% of copper, 0.10-0.22 g/t of gold and silver ranging from 0.5-62.1 g/t.

The Northstar project area had intercepts of 0.55% copper and 1.6 g/t silver across 454 feet from Hole NS-04-02 and 0.51% copper and 1.2 g/t silver across 286 feet from Hole NS-04-04. This represented a newly recognized bulk-tonnage style setting of copper mineralization with the project area.

For 2005 the Company will be conducting a 10 hole drill program estimated at roughly \$460,000.

Carl Schulze, B.SC., P.Geo., is the Qualified Person for the Kaza-Northstar Project in compliance with National Instrument 43-101.

Slave Point Natural Gas Test Well

During fiscal 2005 the Company participated in the drilling of a Slave Point Natural Gas Test Well in Northeastern British Columbia. The cost of drilling this test well was \$1,425,000. The operator of the test well was Shell Canada who have a 50% interest in the project. As a result of drilling this test well the Company has earned a 17.5% working interest in twenty-six square miles from the top of the Slave Point to the Basement. The test well is located in a prolific gas producing region of Northeastern British Columbia which has seen several natural gas discoveries. The target depth for the test well was approximately 3200 meters. Shell Canada notified the Company that the deep zone encountered a tight limestone formation and issued an abandonment notice for the test well. Findings from the test well were extremely encouraging and the Company intends to drill other wells once the property is accessible. The Company has more than enough working capital to conduct a drill program for several wells.

Results of Operations

The Company reported a net loss after tax adjustments for the fiscal year ended February 28, 2005 of \$264,300 or \$0.02 per share (2004: \$29,110 or \$0.00 per share).

The Company realized \$11,274 (2004: \$15,046) in oil and gas revenues. Revenue from the Company's minority interests in oil and gas producing wells has been consistent for three consecutive years. These wells were written down to nominal value several years ago when the Company made the decision not to proceed with oil and gas interests.

The Company conducted exploration in the year of \$1,127,135 of which \$1,098,510 was on the Kaza and Northstar properties. The Company incurred development costs of \$28,625 on its Northeastern BC gas project and paid \$1,905,887 in stock and cash to earn a 17.5% interest.

The Company recorded a stock-based compensation charge of \$921,500 relating to stock options during the year. Administrative expenses of \$578,896 increased from \$350,684 in 2004.

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,		
	2005	2004	2003
(Loss) Income before Income Tax	\$ (1,494,695)	\$ 50,890	\$ (265,782)
Net Loss	264,300	29,110	265,782
Loss Per Share	(0.02)	0.00	(0.04)
Total Assets	5,271,716	912,893	507,539
Total Liabilities	113,412	186,442	141,550
Working Capital (deficiency)	1,502,194	298,355	(113,421)

Summary of Quarterly Results

	2005	2004	2004	2004	2004	2003	2003	2003
	Feb. 28 Q4	Nov. 30 Q3	Aug. 31 Q2	May 30 Q1	Feb. 29 Q4	Nov. 30 Q3	Aug. 31 Q2	May 30 Q1
Total revenue	7,029	2,544	610	3,936	11,815	2,584	3,430	2,787
Income (loss) before extraordinary items	(1,494,695)	(75,228)	(174,318)	(92,373)	(144,016)	(85,937)	(116,228)	(61,075)
Basic per share	(0.02)	(0.01)	(0.01)	(0.00)	(0.02)	(0.00)	(0.00)	(0.01)
Diluted per share	(0.02)	(0.01)	(0.01)	(0.00)	(0.02)	(0.00)	(0.00)	(0.01)
Net income (loss)	77,619	(75,228)	(174,318)	(92,373)	15,801	274	116,228	61,075
Basic per share	(0.02)	(0.01)	(0.01)	(0.00)	(0.02)	(0.00)	(0.00)	(0.01)
Diluted per share	(0.02)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)

Share Capital and Financing Activities

During the year, the Company completed numerous private placements involving the issuance of 15,558,557 tax flow-through units and 4,538,076 non-flow-through shares at prices ranging between \$0.15 and \$0.25 for gross proceeds of \$4,335,926. In addition, shareholders converted 1,595,234 warrants for proceeds of \$313,212 during the year and directors, officers and employees exercised 270,000 stock options for proceeds of \$39,750.

Liquidity and Capital Resources

Historically, the Company has raised funds through equity financing and the exercise of options and warrants to fund its operations. The Company has working capital of \$1,502,194 at February 28, 2005. The Company believes it is sufficiently funded to financing corporate and administrative expenses and ongoing exploration on the Company's mineral and oil and gas properties in the near future.

Related Party Transactions

During the year, the Company incurred \$100,000 (2004: \$120,147) in charges by directors or companies with common directors of for management and consulting fees. Salaries and benefits of \$13,479 (2004: \$10,181) were paid to an officer of the Company and \$17,702 (2004: \$6,370) was paid for rent expense to a company with common directors.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

See Note 2 to the February 28, 2005 year end audited financial statements of the Company's significant accounting policies.

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 financial statements. It is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from its financial instruments and that their fair values approximate their carrying values unless otherwise noted.

Risks

Mineral and oil and gas exploration and development involve a high degree of risk and few properties are ultimately developed to a producing stage. There is no assurance that the Company's future exploration and development activities will result in any discoveries of commercial bodies of ore or oil and gas. Whether an ore body will be commercially viable depends on a number of factors including the particular attributes of the deposit such as size, grade and 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, but the combination of these factors may result in a resource property being unprofitable.

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,		
	2005	2004	2003
Capitalized acquisition, exploration and development costs	\$3,058,022	\$322,275	\$69,740
Stock-based compensation	921,500	99,062	-
Deferred development costs	-	-	-
General and administration costs	578,896	350,684	270,269

Additional Information

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