

Consolidated Financial Statements
(Expressed in Canadian Dollars)

**NORTHERN HEMISPHERE
DEVELOPMENT CORP.**

For the nine months ended November 30, 2005

The accompanying Financial Statement for the nine months ended November 30, 2005 and 2004 have not been reviewed or audited by the Company's Auditors.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Consolidated Balance Sheet
(Unaudited - Prepared by Management)

ASSETS

	November 30, 2005	February 28, 2005
	\$	\$
Current assets		
Cash	1,090,549	1,560,449
Accounts receivable and prepaid expenses	65,533	55,157
	<hr/>	<hr/>
Due from related parties (Note 6)	1,156,082	1,615,606
Reclamation bond	144,115	157,227
Property and Equipment (Note 4)	10,000	5,000
Resource Properties (Note 3)	21,274	19,177
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	2,882,076	3,474,706
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	4,213,547	5,271,716

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	55,927	108,238
Due to related parties (Note 6)	35,655	5,174
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	91,582	113,412

SHAREHOLDERS' EQUITY

Capital stock (Note 5)	17,713,001	16,187,216
Contributed surplus	4,512,015	1,020,562
Deficit	(18,103,051)	(12,049,474)
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	4,121,965	5,158,304
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	4,213,547	5,271,716

On Behalf of the Board

Signed:

"J. Frank Callaghan", Director

"H. K. (Ken) Maddison", Director

See Accompanying Notes to the Consolidated Financial Statements

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Consolidated Statement of Operations and Deficit
(Unaudited - Prepared by Management)

	Three Months Ended		Nine Months Ended	
	November 30		November 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Income:				
Oil and gas revenue, net of cost	1,076	2,544	4,493	7,061
Expenses:				
Amortization	1,052	447	3,159	1,088
Auto expense	-	127	-	536
Audit and accounting	9,500	6,175	15,142	23,775
Consulting fees (Note 6)	-	15,000	65,123	45,000
Insurance	290	-	11,747	-
Shareholder communications and advertising	12,351	5,535	47,556	27,368
Stock-based compensation	1,240,354	-	3,491,448	77,800
Legal fees	145	(426)	13,478	-
Listing and filing fees	9,206	3,558	15,193	8,409
Management fees (Note 6)	15,000	15,000	45,000	45,000
Office services, and supplies	3,516	8,623	25,676	36,385
Office rent (Note 6)	4,579	3,543	20,025	10,629
Salaries and benefits (Note 6)	56,516	11,310	135,166	58,163
Trade show	7,880	-	8,921	6,679
Telephone	1,990	2,099	6,121	4,008
Travel and accommodation	69	768	3,887	5,808
Transfer agent	3,745	5,460	17,528	7,539
	(1,366,193)	(77,219)	(3,925,170)	(358,187)
Interest income	3,362	131	9,891	1,148
Recovery of costs	-	(684)	-	(1,876)
Write down of resource properties	(2,142,791)	-	(2,142,791)	-
Net (loss) gain for the period	(3,504,546)	(75,228)	(6,053,577)	(348,102)
Deficit, beginning of period	(14,598,505)	(4,958,986)	(12,049,474)	(11,686,112)
Deficit, end of period	(18,103,051)	(12,034,214)	(18,103,051)	(12,034,214)
Basic and diluted loss per share	\$(0.10)	\$(0.01)	\$(0.17)	\$(0.02)

See Accompanying Notes to the Consolidated Financial Statements

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Consolidated Statement of Cash Flows
(Unaudited - Prepared by Management)

	Three Months Ended November 30		Nine Months Ended November 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
CASH PROVIDED BY (USED IN)				
Operating Activities:				
Gain (Loss) for the period	(3,504,546)	(75,228)	(6,053,577)	(348,102)
Expenses (recoveries) not involving current outlay of cash:				
Stock-based compensation	1,240,359	-	3,491,453	77,800
Amortization	1,052	447	3,159	1,088
Write down of resource property	2,142,791	-	2,142,791	-
	(120,344)	(74,781)	(416,174)	(269,214)
<i>Changes in non-cash working capital items:</i>				
Accounts receivable and prepaid expenses	8,244	26,464	(10,376)	(12,928)
Due to related parties	25,127	249,332	30,481	311,640
Accounts payable and accrued liabilities	(14,239)	(27,069)	(52,311)	(103,124)
	(101,212)	173,946	(448,380)	(73,626)
Financing activities:				
Due from related parties	32,809	-	13,112	-
Issuance of shares for cash, net of costs	117,049	167,266	1,455,785	749,616
	149,858	167,266	1,468,897	749,616
Investing Activities				
Investment in and expenditures on resource properties	(693,388)	(289,952)	(1,480,161)	(1,079,267)
Purchase of Property and Equipment	(856)	(2,799)	(5,256)	(4,489)
Purchase of reclamation bond	-	-	(5,000)	-
	(694,244)	(292,751)	(1,490,417)	(1,083,756)
Increase (decrease) in cash	(645,598)	48,461	(469,900)	(407,766)
Cash, beginning of period	1,736,147	2,862	1,560,449	459,089
Cash, end of period	1,090,549	51,323	1,090,549	51,323

See Note 7 – Non-cash transactions

See Accompanying Notes to the Consolidated Financial Statements

1. Nature and Continuance of Operations

The Company was incorporated on March 6, 1978 under the laws of British Columbia and its common shares are publicly traded on the TSX Venture Exchange.

The Company is in the development stage and is in the process of exploring its resource properties and has not determined whether these properties contain reserves, which are economically recoverable. The recoverability of amounts shown for resource property costs is dependent upon the discovery of economically recoverable reserves and the ability to obtain the necessary financing to complete their exploration and development.

These consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has a working capital surplus of \$1,064,500 at November 30, 2005 and has accumulated losses of \$18,103,051 since incorporation. The Company's ability to meet its obligations and maintain its operations is contingent upon additional financing or profitable operations in the future. No assurances can be given that the company will be able to continue as a going concern. These consolidated financial statements do not include any adjustments that might be necessary if the Company were unable to continue operations.

2. Comparative Figures

Certain of the prior periods comparative figures have been reclassified to conform to the presentation adopted for the current period.

NORTHERN HEMISPHERE DEVELOPMENT CORP.**Notes to Consolidated Financial Statements**

November 30, 2005

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3. Resource Properties

	Northstar-Kaza Properties, British Columbia	Oil and Gas Wells, Alberta	Oil and Gas Wells, British Columbia	Total
Balance, February 28, 2005	\$ 1,540,194	\$ -	\$1,934,512	\$3,474,706
Acquisition Cost	93,000	732,358	321,129	1,146,487
Exploration Expenditures				
Administration	19,246	-	-	19,246
Geographical consulting	91,714	-	-	91,714
Drilling and camp cost	292,714	-	-	292,714
	403,674	-	-	403,674
	496,674	732,358	321,129	1,550,161
Amount written off	(2,036,868)	(105,923)	-	(2,142,791)
Balance, November 30, 2005	\$ -	\$626,435	\$2,255,641	\$2,882,076

Northstar - Kaza properties, British Columbia

During the period the Company paid \$15,000 and issued 100,000 common shares at a deemed value of \$70,000.

Management has decided not to proceed with any further work on this property and has written off \$2,036,868 at November 30, 2005.

NORTHERN HEMISPHERE DEVELOPMENT CORP.**Notes to Consolidated Financial Statements**

November 30, 2005

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**Oil and Gas Property,
British Columbia**

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 at a deemed value of \$309,750. The Company also issued 200,000 shares at a deemed value of \$40,000 for finders fees and paid cash of \$87,500 also as a finders fee. During the quarter ended November 30, 2005, the Company paid an additional \$282,958 to drill a shallow gas well.

**Alberta
Bulwark Property, Central Alberta**

The Company paid \$626,435 to acquire a 45% interest before payout and a 20% interest after payout. The Company has a further right to earn a 47.5% interest in a further four sections before payout and a 22.5% interest after payout.

Goose Creek Property, West-Central Alberta

The Company paid \$105,923 to acquire a 7.5% working interest before payout and a 4.5% interest after payout. At November 30, 2005, the Company has abandoned this property and has written off \$105,923.

Oil and Gas Wells

The Company has a small minority interest in certain oil and gas producing wells situated in the State of Oklahoma, U.S.A. The interest is held in the Company's U.S. subsidiary, Hemisphere Development Corporation. During the period ended November 30, 2005, the Company realized revenue from the oil and gas holdings of \$4,493. The interest in these properties is recorded at nominal value. The Company does not plan any further expenditures on these properties.

4. Property and Equipment

	Net Value February 28, 2005	Changes in the Period		Net Value November 30, 2005
		Additions	Depreciation	
Equipment	\$ 6,565	\$ -	\$1,341	\$5,224
Computers	10,056	5,256	1,626	13,686
Furniture	2,556	-	192	2,364
	<u>\$19,177</u>	<u>\$5,256</u>	<u>\$(3,159)</u>	<u>\$21,274</u>

NORTHERN HEMISPHERE DEVELOPMENT CORP.**Notes to Consolidated Financial Statements**

November 30, 2005

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5. Share Capital

a) Authorized Unlimited number of common shares without par value

b) Issued:

	Number of shares	\$ Amount
Balance, February 28, 2005	33,103,009	\$16,187,216
Issued for property acquisition	100,000	70,000
Issued for cash	5,498,409	1,455,785
Balance, November 30, 2005	38,701,418	\$17,713,001

c) Share purchase options

The continuity of the Company's share purchase options for the nine months ended November 30, 2005 are as follows:

Exercise Price	Expiry Date	Balance February 28, 2005	Changes in the Period			Balance November 30, 2005
			Granted	Exercised	Expired/Cancelled	
\$0.20	December 9, 2007	522,020	-	(372,020)	-	150,000
\$0.14	October 21, 2006	420,456	-	(420,456)	-	-
\$0.33	January 18, 2008	1,164,772	-	(689,772)	(100,000)	375,000
\$0.15	June 23, 2007	393,589	-	(383,589)	-	10,000
\$0.40	January 31, 2008	602,080	-	(327,080)	(20,000)	255,000
\$0.73	March 17, 2008	-	235,283	(100,000)	-	135,283
\$0.69	March 22, 2008	-	2,197,109 ⁽¹⁾	-	-	2,197,109
\$0.50	July 1, 2008	-	507,187	-	-	507,187
\$0.71	September 30, 2008	-	159,737	-	-	159,737
		3,102,917	3,099,316	(2,292,917)	(120,000)	3,789,316
Weighted average exercise price		\$0.28	\$1.11	\$0.25	\$0.34	\$0.90

(1) On September 26, 2005 the price of these options was amended to \$0.69.

During the period the Company granted fixed share purchase options to directors and consultants of the Company for the purchase of up to 902,207 common shares at exercise prices ranging between \$0.50 and \$0.73 per share, expiring between March 17 and September 22, 2008. In addition, 2,197,109 options granted in March of 2005 at \$1.15 per share were repriced to \$0.69 per share expiring March 22, 2008.

The Company accounts for stock option grants using the fair value method by a charge against income at the time of grant. During the period the Company recorded stock based compensation expense totaling \$3,491,453.

The fair value of the share purchase options was estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest of 3.5%, dividend yield of 0%, volatility factor of 155% and an 'expected life' value of three years.

NORTHERN HEMISPHERE DEVELOPMENT CORP.**Notes to Consolidated Financial Statements**

November 30, 2005

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5. Share Capital, continued

d) Stock purchase warrants

The continuity of the Company's share purchase warrants for the nine months ended November 30, 2005 are as follows:

Exercise Price	Expiry Date	Balance February 28, 2005	Changes in the Period			Balance November 30, 2005
			Granted	Exercised	Expired/Cancelled	
\$0.30	December 24, 2005	4,975,000	-	(425,000)	-	4,550,000
\$0.35	December 30, 2005	1,091,500	-	(242,750)	-	848,750
\$0.35	January 21, 2006	1,178,575	-	(438,075)	-	740,500
\$0.35	January 10, 2006	106,000	-	(6,500)	-	99,500
\$0.20	August 30, 2005	290,000	-	(290,000)	-	-
\$0.20	June 7, 2005	211,667	-	(211,667)	-	-
\$0.20	August 5, 2005	1,242,000	-	(1,242,000)	-	-
\$0.30	October 22, 2005	350,000	-	(350,000)	-	-
\$0.30	November 10, 2005	60,000	-	(60,000)	-	-
\$0.35	December 30, 2005	280,000	-	-	-	280,000
		9,784,742	-	(3,265,992)	-	6,518,750

6. Related Party Transactions

a) During the nine months ended November 30, 2005 the Company was charged the following amounts by directors of the Company or by companies with a common director:

Consulting fees	\$22,870
Management fees	45,000
Salaries and benefits	70,329
	<hr/>
	\$138,199

These expenditures were measured by the exchange amount which is the amount agreed upon by the transaction parties.

b) At November 30, 2005 due to/from related parties consisted of amounts due from a director and companies with common directors.

7. Non-Cash Transactions (Note 3)

Investing and financing activities that do not have a direct impact on cash flows are excluded from the Statement of Cash Flows. During the period the Company issued 100,000 shares at a deemed value of \$70,000 for a resource property. This transaction has been excluded from the Statement of Cash Flows.

8. Subsequent Event

Subsequent to November 30, 2005 the Company;

i) Granted incentive stock options to directors, officers, employees and consultants for 765,705 options with an exercise price of \$0.50 per share. These options expire January 11, 2009.

NORTHERN HEMISPHERE DEVELOPMENT CORP.

Form 51-102F1

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the nine months ended November 30, 2005**

The following discussion and analysis of the operations, results, and financial position of the Company for the nine months ended November 30, 2005 should be read in conjunction with the November 30, 2005 Unaudited Financial Statements and the related Notes. The effective date of this report is January 29, 2006.

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 factors 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 have been the exploration and development of mineral and oil and gas properties. At November 30, 2005, management of the Company has abandoned all of its mineral property interests and will focus on its oil and gas properties. The Company is in the process of exploring and developing its oil and gas properties and has not yet determined whether these 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, the ability of the Company to obtain the necessary financing to complete development, confirmation of the Company's interest in the underlying 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. 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. Once an oil and gas property has 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 however management feels that there is a greater chance for an oil and gas property to become a producer than a grassroots mineral exploration property.

Current Operations

During the nine months ended November 30, 2005 the Company focused on the Northstar-Kaza property located in the Omineca Mining Division of British Columbia as well as several oil and gas projects.

Kaza - Northstar

For the first six months of the fiscal year, the Company devoted substantial resources in developing the Kaza-Northstar property. Management of the Company is of the opinion that this property will not be a viable commercial property and has written off \$2,036,868 as at November 30, 2005.

Bougie – Trutch Slave Point Natural Gas Property

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 Company paid \$161,542 pursuant to a cash call issued by a new operator for the shallow wells. Drilling of the first shallow well was a success and the Company is waiting for flow rate details. The Company recently paid \$162,417 pursuant to a cash call for a second shallow well.

Bulwark Property

The Company acquired a 45% interest in two sections of land known as the Bulwark property located in Central Alberta. The Company has paid \$626,435 to acquire the interest.

At Bulwark, Well WR1 Provo 1-4-39-12 W4M is currently standing cased as a Mannville gas well, completed in a lower Mannville sand. The wellhead has a standing shut in press of 9,005 kPA (1,306 psi). Well WR1 Provo 10-24-38-13 W4M is to be re-entered and stimulated. Both these wells will be completed as soon as a service rig is available. Well Provo 6-4-39-12 W4M was drilled and abandoned. The Company has earned a 45% interest in four section before payout, a 20% after payout, subject to a crown royalty of 2%.

Goose Creek Property

The Company acquired a 7.5% working interest for \$83,198 in the Goose Creek property located in West-Central Alberta. The Company and its partners spud a test well in March of 2005. Drilling has been completed and production casing has been set. After extensive testing the objective zones were determined to be non-commercial. The Company has written off \$105,923.

Results of Operations

The Company reported a net loss for the nine months ended November 30, 2005 of \$6,053,577 or \$0.17 per share (2004: \$348,102 or \$0.02 per share).

The Company realized \$4,493 (2004: \$7,061) 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 a nominal value several years ago at a time when the Company made the decision not to proceed with its oil and gas interests.

The Company paid acquisition costs and incurred exploration expenditures in the period of \$1,550,161 of which \$496,674 was on the Kaza and Northstar properties. The Company incurred development costs of \$321,129 on its Northeastern BC gas project and paid \$732,358 to participate in three Alberta oil and gas properties. At November 30, 2005, the Company wrote off \$2,036,868 being all costs related to mineral properties and \$105,923 related to the non-commercial Goose Creek oil and gas project.

The Company recorded a stock-based compensation charge of \$3,491,448 relating to stock options during the period. Administrative expenses of \$433,722 increased from \$280,387 in 2004 due to added payroll and consulting expenses, legal fees and shareholder communication costs.

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	2005	2005	2005	2004	2004	2004	2004
	Nov. 30 Q3	Aug.31 Q2	May 31 Q1	Feb. 28 Q4	Nov. 30 Q3	Aug. 31 Q2	May 30 Q1	Feb. 29 Q4
Total revenue	1,076	-	3,417	7,029	2,544	610	3,936	11,815
Income (loss) before extraordinary items	(1,362,831)	(122,620)	(2,426,411)	(1,494,695)	(75,228)	(174,318)	(92,373)	(144,016)
Basic per share	(0.04)	(0.00)	(0.07)	(0.02)	(0.01)	(0.01)	(0.00)	(0.02)
Diluted per share	(0.04)	(0.00)	(0.07)	(0.02)	(0.01)	(0.01)	(0.00)	(0.02)
Net income (loss)	(3,504,546)	(122,620)	(2,426,411)	77,619	(75,228)	(174,318)	(92,373)	15,801
Basic per share	(0.10)	0.00	0.07	(0.02)	(0.01)	(0.01)	(0.00)	(0.02)
Diluted per share	(0.10)	0.00	0.07	(0.02)	(0.01)	(0.01)	(0.00)	(0.00)

Share Capital and Financing Activities

During the period, the Company received \$1,455,785 as a result of shareholders exercising 3,265,992 warrants and 2,292,917 options. At January 26, 2006, the Company has 45,122,168 common shares outstanding.

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 \$1,064,500 at November 30, 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 period, the Company incurred \$107,870 (2004: \$103,612) in charges by directors or companies with common directors for management, consulting fees and salary costs. Salaries and benefits of \$30,329 (2004: \$Nil) were paid to an officer of the Company.

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

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 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 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 an oil and gas 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.