

Consolidated Financial Statements
(Expressed in Canadian Dollars)

**NORTHERN HEMISPHERE
DEVELOPMENT CORP.**

For the three months ended May 31, 2006

The accompanying Financial Statement for the three months ended May 31, 2006 and 2005 have not been reviewed or audited by the Company's Auditors.

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

ASSETS

	May 31, 2006	February 28, 2006
	\$	\$
Current assets		
Cash	2,688,687	2,905,932
Accounts receivable and prepaid expenses	43,408	46,895
	<u>2,732,095</u>	<u>2,952,827</u>
Due from related parties (Note 8)	5,268	6,068
Reclamation bond	10,000	10,000
Property and Equipment (Note 5)	16,925	17,665
Resource Properties (Note 6)	2,849,755	3,180,210
	<u>5,614,043</u>	<u>6,166,770</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities	67,081	55,005
Due to related parties (Note 8)	50,368	77,266
	<u>117,449</u>	<u>132,271</u>

SHAREHOLDERS' EQUITY

Capital stock (Note 7)	20,696,772	20,688,522
Contributed surplus	4,015,621	4,015,621
Deficit	(19,215,799)	(18,669,644)
	<u>5,496,594</u>	<u>6,034,499</u>
	<u>5,614,043</u>	<u>6,166,770</u>

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 May 31	
	2006	2005
	\$	\$
Income:		
Oil and gas revenue, net of cost	2,253	3,417
Interest income	10,037	3,030
	<u>12,290</u>	<u>6,447</u>
Expenses:		
Amortization	1,053	1,053
Audit and accounting	5,000	3,727
Consulting fees (Note 8)	-	41,795
Shareholder communications and advertising	10,217	26,530
Legal fees	701	5,585
Listing and filing fees	5,600	635
Management fees (Note 8)	15,000	15,000
Office services, and supplies	3,223	8,458
Office rent (Note 8)	5,153	10,827
Salaries and benefits (Note 8)	22,729	52,313
Stock-based compensation	-	2,251,094
Trade show	151	4,642
Telephone	436	1,524
Travel and accommodation	1,319	2,491
Transfer agent	505	7,184
	<u>(71,087)</u>	<u>(2,432,858)</u>
Write-down of resource property	(487,358)	-
Net (loss) gain for the period	(546,155)	(2,426,411)
Deficit, beginning of period	(18,669,644)	(12,049,474)
Deficit, end of period	<u>(19,215,799)</u>	<u>(14,475,885)</u>
Basic and diluted loss per share	<u>(\$0.01)</u>	<u>\$0.07</u>

See Accompanying Notes to the Consolidated Financial Statements

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

	Three Months Ended May 31	
	2006	2005
	\$	\$
CASH PROVIDED BY (USED IN)		
Operating Activities:		
Gain (Loss) for the period	(546,155)	(2,426,411)
Expenses (recoveries) not involving current outlay of cash:		
Stock-based compensation	-	2,251,094
Amortization	1,053	1,053
Write-down of resource property	487,358	-
	<u>(57,744)</u>	<u>(174,264)</u>
Changes in non-cash working capital items:		
Accounts receivable and prepaid expenses	3,487	15,934
Due to related parties	(26,898)	2,345
Accounts payable and accrued liabilities	12,076	(12,911)
	<u>(69,079)</u>	<u>(168,896)</u>
Financing activities:		
Due from related parties	800	(66,173)
Issuance of shares for cash, net of costs	8,250	975,058
	<u>9,050</u>	<u>908,885</u>
Investing Activities		
Investment in and expenditures on resource properties	(156,903)	(352,903)
Purchase of Property and Equipment	(313)	(4,400)
Purchase of reclamation bond	-	(5,000)
	<u>(157,216)</u>	<u>(362,303)</u>
Increase (decrease) in cash	(217,245)	377,686
Cash, beginning of period	2,905,932	1,560,449
Cash, end of period	<u>2,688,687</u>	<u>1,938,135</u>

See Accompanying Notes to the Consolidated Financial Statements

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 a working capital surplus of \$2,614,646 at May 31, 2006 and has accumulated losses of \$19,215,799 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 that 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) Petroleum and natural gas interests

The Company follows the full cost method of accounting for petroleum and natural gas interests whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. These costs include lease acquisition costs, geological and geophysical expenses, drilling costs of successful as well as unsuccessful wells and overhead charges related directly to exploration. The carrying value of petroleum and natural gas interests are not intended to report replacement or current market values.

If the interests are sold or abandoned, the proceeds will be applied against capitalized costs unless such sale significantly impacts the rate of depletion.

Costs associated with unproven reserves are reviewed by management to determine whether or not 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 and 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.

(c) Revenue recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes from the Company to its customers.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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 average rate of exchange for the year.

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

(e) 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.

(f) 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.

(g) Loss per share

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 as the outstanding stock options and warrants are anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Asset retirement obligations

Section 3110 of the CICA Handbook requires companies to recognize an estimate of the liability associated with an asset retirement obligation ("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 capitalized amount of the ARO is depleted on a unit-of-production method over the life of the proved reserves. 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.

(i) 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.

(j) Stock-based compensation

Effective March 1, 2004, the Company adopted the CICA 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.

(k) Share issuance costs

Share issuance costs are netted against capital stock proceeds.

(l) 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:

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

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
May 31, 2006

3. COMPARATIVE FIGURES

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

4. FINANCIAL INSTRUMENTS

(a) Fair value

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

(b) Interest rate risk

The Company is not exposed to significant interest rate risk.

(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.

5. PROPERTY AND EQUIPMENT

	Changes in the Period			
	Net Value		Accumulated	Net Value
	February 28, 2006	Additions	Amortization	May 31, 2006
Computers	\$12,889	\$313	(542)	\$12,660
Equipment	\$4,776	-	(511)	4,265
	\$17,665	\$313	\$(1,053)	\$16,925

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
May 31, 2006

6. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES

Balance, February 28, 2005	\$1,540,194	\$1,934,512	\$3,474,706
Acquisition Costs	85,000	1,313,900	1,398,900
Exploration Expenditures			
Overhead costs	18,896	-	18,896
Assays	9,963	-	9,963
Equipment repair and rental	21,279	-	21,279
Exploration - other	17,896	-	17,896
Geographical consulting	91,712	37,721	129,433
Staking costs	8,000	-	8,000
Mobilization and demobilization	3,504	-	3,504
Drilling and sampling	115,184	-	115,184
Camp costs	124,617	-	124,617
	411,051	37,721	448,772
Write off of resource costs	(2,036,245)	(105,923)	(2,142,168)
Balance, February 28, 2006	-	3,180,210	3,180,210
Acquisition Costs	-	156,903	156,903
Write-Off of resource costs	-	(487,358)	(487,358)
Balance, May 31, 2006	\$ -	\$2,849,755	\$2,849,755

(a) 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 period ended May 31, 2006, the Company realized revenue from the oil and gas holdings of \$2,253 (2005 - \$3,417). 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 finder's fees totalling \$437,250. During the year ended February 28, 2006, the Company incurred an additional \$619,264 on the original test well and two exploratory wells.

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
May 31, 2006

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

(a) Oil and gas wells (continued)

Alberta, Canada

During the year ended February 28, 2006, the Company entered into the following two agreements for oil and gas projects located in Alberta:

- (i) Goose Creek project – the Company entered into a participation agreement to earn a 7.5% working interest in the Goose Creek property located in the Kaybob area near Fox Creek, Alberta. The Company paid \$105,923 for this interest. The well drilled was determined to be non-commercial and management wrote off \$105,923 at the year end; and
- (ii) Bulwark project – the Company entered into a participation agreement to earn a 45% working interest in the Bulwark property located in central Alberta. The Company has participated in the drilling of these three wells and has incurred costs totalling \$644,261 to May 31, 2006. At May 31, 2006 two wells were determined to be non-commercial and management wrote off \$487,658 at the period end.

7. CAPITAL STOCK

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

	2006	
	Number of Shares	Amount
Balance, February 28, 2006	45,285,968	\$20,688,522
For cash, pursuant to share purchase options	25,000	8,250
Balance, May 31, 2006	45,310,968	\$20,696,772

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
May 31, 2006

7. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

Details of the status of the Company's stock options as at May 31, 2006 and changes during the period then ended are as follows:

Exercise Price	Expiry Date	Balance February 28, 2006	Changes in the Period			Balance Outstanding and Exercisable May 31, 2006
			Granted	Exercised	Expired/ Cancelled	
\$0.15	June 24, 2007	10,000	-	-	-	10,000
\$0.20	December 9, 2007	140,000	-	-	(30,000)	110,000
\$0.33	January 18, 2008	310,000	-	(25,000)	(25,000)	260,000
\$0.40	January 31, 2008	240,000	-	-	(30,000)	210,000
\$0.50	July 1, 2008	507,187	-	-	-	507,187
\$0.69	March 22, 2008	2,197,109	-	-	-	2,197,109
\$0.71	September 30, 2008	159,737	-	-	(12,500)	147,237
\$0.73	March 17, 2008	135,283	-	-	-	135,283
		<u>3,699,316</u>	<u>-</u>	<u>(25,000)</u>	<u>(97,500)</u>	<u>3,576,816</u>
Weighted average exercise price		\$0.59	-	\$0.33	\$0.34	\$0.59

(d) Warrants outstanding

There were no warrants outstanding at February 28, 2006 or at May 31, 2006.

(e) Contributed Surplus

Balance, February 28, 2005	\$ 981,383
Stock options exercised for common shares	(869,700)
Stock-based compensation	3,903,938
<u>Balance, February 28, 2006 and May 31, 2006</u>	<u>\$ 4,015,621</u>

NORTHERN HEMISPHERE DEVELOPMENT CORP.
Notes to Consolidated Financial Statements
May 31, 2006

8. RELATED PARTY TRANSACTIONS

These transactions are in the ordinary course of business and are recorded at the exchange amount that was agreed between the parties.

- (a) Management fees of \$15,000 (2005 - \$15,000), were charged by a director of the Company. Fees for 2005 were charged by a Company that was controlled by the family of a director. In addition, fees for consulting services of \$Nil (2005 - \$22,870) were paid to a director.
- (b) Salaries and benefits of \$Nil (2005 - \$10,107) were paid to directors and officers of the Company.
- (c) Rent expense of \$Nil (2005 - \$10,827) was charged by a company with common directors.
- (d) The amounts due from/to related parties, which are non-interest bearing, unsecured and due on demand, are comprised of the following:

	May 31, 2006	February 28, 2006
Receivable		
Due from companies with common directors	\$ 800	\$ 1,600
Due from directors	4,468	4,468
	<u>\$ 5,268</u>	<u>\$ 6,068</u>
Payable		
Due to companies with common directors	\$ 50,368	\$ 77,266

NORTHERN HEMISPHERE DEVELOPMENT CORP.

Form 51-102F1

MANAGEMENT'S DISCUSSION AND ANALYSIS For the three months ended May 31, 2006

The following discussion and analysis of the operations, results, and financial position of the Company for the three months ended May 31, 2006 should be read in conjunction with the May 31, 2006 Unaudited Interim Financial Statements and the related Notes. The effective date of this report is July 28, 2006.

Forward Looking Statements

The Company is continually investigating new exploration opportunities, and resource exploration is carried out on properties identified by management as having favorable exploration potential. Acquisition of oil and gas properties is typically done through a participation agreement whereby the Company pays a specific amount to earn a specific interest. If a drilled hole is determined to be dry or non-commercial, the Company expenses the associated costs.

Although the resource sector involves high risk, management believes there is a greater chance for the Company's oil and gas properties to become producers than grassroots mineral exploration properties. The recoverability of amounts shown for resource properties depends on the discovery of economically recoverable reserves, and upon future profitable production or sufficient proceeds from the disposition of its resource properties.

Business Overview

In the past, the Company's principal business activity was the exploration and development of mineral properties. In February, 2006, management refocused its efforts on oil and gas opportunities and, as at May 31, 2006, the Company's principal business activity is the exploration and development of its oil and gas properties.

Current Operations

During the three months ended May 31, 2006 the Company focused on its oil and gas projects:

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 was \$1,425,000. The operator was Shell Canada who has a 50% interest in the project. As a result of this drilling 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 also paid \$323,959 pursuant to cash calls issued by Focus Energy Trust ("FET") for the drilling of two shallow wells. FET has acquired from Shell Canada a 35% interest in the rights to the shallow zones. Drilling of the two shallow wells was a success and the Company is waiting for flow rate details. The shallow wells have been classified as tight holes due to the discovery of previously unknown structures. The Company is expecting to meet with FET late in the summer of 2006 to discuss the winter drill program which should include the drilling of at least two more shallow wells.

Bulwark Property

The Company acquired a 45% interest in two sections of land known as the Bulwark property located in Central Alberta. The Company paid \$766,434 to acquire the interest.

At Bulwark, well WR1 Provo 10-24-38-13 W4M was successfully re-entered in January 2006 and has been completed as a Viking Formation oil producer. The well was production tested producing a daily flow rate of 49 barrels per day. This discovery constitutes a new pool discovery for the Company. The Company is waiting for final average daily flow rates. Well Provo 6-4-39-12 W4M and 1-24-39-12 were drilled and abandoned. Management has written off costs of \$487,358 for these two wells.

The Company has earned a 45% interest in four section before payout, and a 20% interest after payout, subject to a crown royalty of 2%.

Results of Operations

The Company reported a net loss for the three months ended May 31, 2006 of \$541,155 or \$0.01 per share (2005: \$2,426,411 or \$0.07 per share), including the write-down of property of \$487,358 related to the two Bulwark wells. Also included is a stock-based compensation charge of \$2,251,094.

The Company paid \$156,903 to participate in an Alberta oil and gas well, and realized \$2,253 (2005: \$3,417) in oil and gas revenues from its Oklahoma wells. Revenue from the Company's minority interests in the Oklahoma oil and gas producing wells has been consistent for three consecutive years. Administrative expenses declined by \$115,677 over the same period in 2005. Consulting fees declined by \$41,795 as fees charged by a director were discontinued and the Company had no need of outside consulting during the first quarter of fiscal 2007. Shareholder communications and advertising declined by \$16,313 as management has decided to curtail its involvement in tradeshow. Salaries and benefits declined by \$29,584 as the payroll only consists of two people.

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,		
	2006	2005	2004
(Loss) Income before Income Tax	\$ (6,620,170)	\$ (1,494,695)	\$ 50,890
Net Loss	(6,620,170)	264,300	29,110
Loss Per Share	(0.17)	(0.02)	0.00
Total Assets	6,166,770	5,271,716	912,893
Total Liabilities	132,271	113,412	186,442
Working Capital (deficiency)	2,820,556	1,502,194	298,355

Summary of Quarterly Results

	2006	2006	2005	2005	2005	2005	2004	2004
	May 31 Q1	Feb. 28 Q4	Nov. 30 Q3	Aug.31 Q2	May 31 Q1	Feb. 28 Q4	Nov. 30 Q3	Aug. 31 Q2
Total revenue	12,290	27,663	1,076	-	3,417	7,029	2,544	610
Income (loss) before extraordinary items	(541,155)	(2,708,308)	(1,362,831)	(122,620)	(2,426,411)	(1,494,695)	(75,228)	(174,318)
Basic per share	(0.01)	(0.17)	(0.04)	(0.00)	(0.07)	(0.02)	(0.01)	(0.01)
Diluted per share	(0.01)	(0.17)	(0.04)	(0.00)	(0.07)	(0.02)	(0.01)	(0.01)
Net income (loss)	(541,155)	(566,593)	(3,504,546)	(122,620)	(2,426,411)	77,619	(75,228)	(174,318)
Basic per share	(0.01)	(0.17)	(0.10)	0.00	0.07	(0.02)	(0.01)	(0.01)
Diluted per share	(0.01)	(0.17)	(0.10)	0.00	0.07	(0.02)	(0.01)	(0.01)

Share Capital and Financing Activities

During the quarter, the Company received \$8,250 from the exercise of 25,000 options. At July 28, 2006, the Company has 45,310,968 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 has working capital of \$2,619,646 at May 31, 2006. The Company is sufficiently funded to finance corporate and administrative expenses and ongoing exploration on the Company's oil and gas properties.

Related Party Transactions

During the year, the Company incurred \$15,000 (2005: \$15,000) as management fees to a director.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

See Note 2 to the May 31, 2006 consolidated 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. 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..

Risks

Oil and gas exploration and development involve a high degree of risk and few properties are ultimately 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,		
	2006	2005	2004
Capitalized acquisition, exploration and development costs	\$1,777,672	\$3,058,022	\$322,275
Stock-based compensation	3,903,938	921,500	99,062
Shares issued for cash, net of issue costs	3,522,427	4,969,153	-
General and administration costs	594,158	578,896	350,684

Additional Disclosure Requirements

The Company's management is responsible for establishing and maintaining disclosure controls and procedures which have been designed, under the supervision of the Board of Directors and its Officers, to provide reasonable assurance that material information relating to the Company is made known to the Board of Directors and its Officers by others within the Company. The Officers of the Company certifying its Interim Filings under National Instrument 52-109 have evaluated the effectiveness of these disclosure controls and procedures for the three months ending May 31, 2006 and have concluded that they are being maintained as designed.

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