



Half Year Report

Southern Hemisphere Mining Limited

ACN 140 494 784

December 31, 2013



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In this Half Year Report all amounts are stated in United States dollars unless otherwise indicated.

The Directors submit herewith the financial report of Southern Hemisphere Mining Limited ("Company") and its subsidiaries (the "Group") for the half year ended December 31, 2013.

Directors

The names of the directors of the Company during or since the end of the half-year are:

Dr John Tarrant
Mr Andres Hevia
Mr David Craig

Mr Trevor Tennant
Mr Paul McRae

Mr James Pearson
Mr Andrew Richards

The above named directors held office during and since the end of the half-year except for:

Mr David Craig – resigned December 1, 2013

Mr Andrew Richards – appointed December 1, 2013

Review of Operations

During the half year ended December 31, 2013, the Group incurred a loss of \$827,164 (half year December 31, 2012: loss of \$2,006,133).

All the Group's Projects are in Chile and its exploration activities are managed from its Santiago office. During the six month period, the Company focussed its exploration on the Group's Projects in the Coquimbo Region of Chile: the Los Rulos Copper/Gold Project and the Llahuin Copper/Gold Project. The Company is the operator of both Projects which are held in incorporated joint ventures with Lundin Mining Corporation ("Lundin Mining"). Additionally, the Company managed operations at the Mantos Grandes Copper/Gold Project for the Mantos Grandes Joint Venture, an incorporated joint venture with Cobre Montana (ASX:CXB).

The following is a summary of the operational activities of the Group for the half year ended December 31, 2013.

• **Los Rulos Copper/Gold Project**

On November 13, 2013 the Group entered into a new 50/50 Joint Venture with Lundin Mining ("Los Rulos Joint Venture") which has acquired an interest in three new prospects (Armandino, Guayacan and Polvareda 2) within the Los Rulos area. A 50/50 (Lundin Mining/Southern Hemisphere) joint venture company ("Minera Los Rulos") was set up to hold the Prospects.

○ *Armandino Prospect*

The Armandino Prospect is located 26 km south west of Combarbala at 700m elevation. Following initial exploration works including mapping, channel sampling and an Induced Polarisation ("IP") survey, the Joint Venture signed an Option Agreement on November 9, 2013. The terms of the Option Agreement require payment of \$300,000 over 24 months of which \$40,000 was paid on execution of the Option Agreement. Under the Los Rulos Joint Venture the Company only has to fund 50% of the acquisition and exploration costs.

The sampling program at the Armandino Project consisted of 122 samples. Refer News release dated November 18, 2013.

○ *Polvareda 2 Prospect*

The Polvareda 2 Prospect is located 26 km west of Combarbala at 1,000m elevation. Initial field works included mapping, IP surveys and channel sampling. Terms of the acquisition of 62.5% equity interest in Polvareda 2 comprise \$390,000 payable over 42 months of which \$30,000 was paid on execution of the share purchase. Under the Los Rulos Joint Venture the Company only has to fund 50% of the acquisition and exploration costs.

The sampling program at the Polvareda 2 Project consisted of 45 samples. Refer News release dated November 18, 2013.

○ *Guayacan Prospect*

The Guayacan Prospect is located approximately 30 km west from Combarbala at an elevation of 1,000m. Preliminary works completed at Guayacan prior to executing the Option Agreement included field mapping and 4 east-west IP lines. The terms of the Option Agreement require payment of \$360,000 over 30 months of which \$20,000 was paid on execution of the Option Agreement. Under the Los Rulos Joint Venture, the Company only has to fund 50% of the acquisition and exploration costs.

The sampling program at Guayacán consisted of 38 samples. Refer News release dated December 20, 2013.

All three Prospects were identified during an **extensive regional sampling and geophysical survey campaign**. They all show strong indications of high-grade copper mineralisation and represent walk-up drilling targets, with drilling scheduled to commence in calendar Q2 2014.

The results of a program of a further 20 IP survey lines will be received, interpreted and made available during calendar Q2 2014.

- **Llahuin Copper/Gold Project**

The Company announced an updated JORC resource for the Llahuin Project which was based on 54,520m of drilling. Refer News release dated July 3, 2013.

During the period, the Group submitted an Environmental application to allow for further drilling. This Environmental application was approved during March 2014. The joint venture is now reviewing adjacent higher-grade satellite opportunities which could add higher grade feed to the overall Llahuin resource.

- **Other Projects**

- *Mantos Grandes Prospect*

The Mantos Grandes Project is situated in the Central Andes, approximately 80 km from the town of Ovalle, which is the capital of Limari Province. The concession area covers 52 square kilometres and contains high-grade copper/gold skarns.

On September 26, 2013 the Company entered into a farm-in option agreement on the Mantos Grandes Copper/Gold Project ("Mantos Grandes Project") with Cobre Montana NL (ASX:CXB) ("Cobre"). Under the farm-in option agreement, Cobre can earn a direct stake of up to 65% equity in the Mantos Grandes Project for total expenditure of AUD\$2.85 million over an 18 month period, consisting of AUD\$1.50 million project sole funding with an initial committed spend of AUD\$400,000 and AUD\$1.35 million in cash payments to Southern Hemisphere of which AUD\$350,000 was paid on execution of the agreement

In January 2014, an 810m drilling campaign commenced to test five "manto" style copper/gold target areas. In conjunction with the drilling campaign, the Company conducted a sampling program which consisted of 43 samples. Refer News release dated March 11, 2014.

- *Chitigua Copper Project*

The Chitigua Copper Project is located on the highly prospective western fault, north of Chuquicamata between the El Abra mine and the Quebrada Blanca Mine. This metallogenic zone includes the Escondida mine.

The Chitigua concessions cover an area of approximately 172 square kilometres and are located 270 km north east of Antofagasta city and 90 km north of the city of Calama, an established mining town.

Due to the size of the Project and the associated high exploration costs, the Company sought expressions of interest from major companies for a joint venture and entered into a farm-in option agreement with Anglo American, who have since withdrawn from the agreement having completed a 3,475 metre drilling campaign. The Company is currently reviewing the Anglo American technical report and is in fresh negotiations with potential new joint venture partners.

Corporate Update

On February 3, 2014, the Company announced that it had successfully raised AUD\$1.2 million through a placement of shares to sophisticated and professional investors at AUD\$0.045 per new share with 1 free option for every 2 new shares subscribed for. The options have an exercise price of AUD\$0.045 and an expiry date of March 7, 2016.

The Company announced an underwritten non-renounceable 1 for 4 entitlement issue to raise approximately AUD\$2.2 million ("Rights Issue") at AUD\$0.045 per new share with 1 free option for every 2 new shares subscribed for.

The options have an exercise price of AUD\$0.045 and an expiry date of March 7, 2016. With the placement, this amounts to a total equity raising of AUD\$3.4 million (before costs and expenses).

The Rights Issue Prospectus was despatched to eligible shareholders on February 21, 2014. The Rights Issue closed on March 7, 2014.

Events subsequent to reporting date

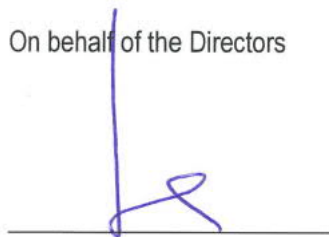
Other than matters relating to equity raising noted in the 'Corporate Update' section, there have been no other events subsequent to the reporting date that are expected to have material impact on the financial position or performance of the Group.

Auditor's independence declaration

The Auditor of the Company, Deloitte Touche Tohmatsu has provided a written declaration of their independence to the Board under the Corporations Act 2001 and this is included in page 6 of this report.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



John Tarrant, Chairman
March 13, 2014

The Board of Directors
Southern Hemisphere Mining Limited
1200 Hay Street
West Perth, WA 6005

13 March 2014

Dear Board Members

Southern Hemisphere Mining Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Southern Hemisphere Mining Limited.

As lead audit partner for the review of the financial statements of Southern Hemisphere Mining Limited for the financial half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Smith
Partner
Chartered Accountants

Independent Auditor's Review Report to the Members of Southern Hemisphere Mining Limited

We have reviewed the accompanying half-year financial report of Southern Hemisphere Mining Limited, which comprises the condensed statement of financial position as at 31 December 2013, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 20.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Southern Hemisphere Mining Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Southern Hemisphere Mining Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Southern Hemisphere Mining Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Neil Smith
Partner
Chartered Accountants

Perth, 13 March 2014

Directors' Declaration

The Directors of the Company declare that:

- a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards AASB 134: *Interim Financial Reporting* and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



John Tarrant, Chairman
March 13, 2014

Southern Hemisphere Mining Limited (An Exploration Stage Company)

Condensed consolidated interim statements of profit or loss and other comprehensive income

(Expressed in U.S. Dollars)

For the half year ended		December 31, 2013 \$	December 31, 2012 \$
	Note		
Continuing operations			
Interest income		13,372	52,236
Other income	3	350,634	61,000
Depreciation		(11,075)	(14,609)
Office and administration		(270,561)	(317,545)
Professional fees		(202,083)	(104,190)
Employee benefits expense	3	(770,634)	(1,332,721)
Impairment expense (mineral properties)	4	(7,963)	(321,169)
Foreign exchange gain (loss)		71,146	(29,135)
Loss before tax		(827,164)	(2,006,133)
Income taxes		-	-
Loss from continuing operations		(827,164)	(2,006,133)
Loss for the period		(827,164)	(2,006,133)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		7,978	666,696
Comprehensive (loss) income for the half year		(819,186)	(1,339,437)
Basic and diluted loss per share	7	0.005	0.013

Southern Hemisphere Mining Limited (An Exploration Stage Company)

Condensed consolidated interim statements of financial position

(Expressed in U.S. Dollars)

As at		December 31, 2013	June 30, 2013
	Note	\$	\$
Assets			
Current Assets			
Cash and cash equivalents		531,789	1,627,077
Other assets		313,798	95,783
		<u>845,587</u>	<u>1,722,860</u>
Non-current Assets			
Property, plant and equipment		95,712	77,881
Exploration and evaluation assets	4	29,620,463	29,636,657
		<u>29,716,175</u>	<u>29,714,538</u>
Total Assets		<u>30,561,762</u>	<u>31,437,399</u>
Liabilities			
Current Liabilities			
Trade and other payables		108,528	159,776
Other liabilities		50,657	54,060
Employee benefits		61,376	63,176
		<u>220,561</u>	<u>277,012</u>
Total Liabilities		<u>220,561</u>	<u>277,012</u>
Net Assets		<u>30,341,201</u>	<u>31,160,387</u>
Equity			
Common shares	5	43,371,912	43,371,912
Share based payments reserve		3,459,041	3,459,041
Foreign currency translation reserve		3,347,234	3,339,256
Accumulated losses		(19,836,986)	(19,009,822)
Total Equity		<u>30,341,201</u>	<u>31,160,387</u>

Southern Hemisphere Mining Limited (An Exploration Stage Company)
Condensed consolidated interim statements of changes in equity
(Expressed in U.S. Dollars)

	Common shares	Share based payments reserve	Foreign currency translation reserve	Accumulated deficit	Total
	\$	\$	\$	\$	\$
Balance – June 30, 2012	38,458,476	2,821,307	3,505,354	(11,818,693)	32,966,444
Shares issued pursuant to private placement (Note 5a)	5,000,000	-	-	-	5,000,000
Issue costs – private placement	(86,564)	-	-	-	(86,564)
Net loss for the period	-	-	-	(2,006,133)	(2,006,133)
Foreign currency translation	-	-	666,696	-	666,696
Total Comprehensive (loss) income	-	-	666,696	(2,006,133)	(1,339,437)
Share based payments	-	488,767	-	-	488,767
Balance – December 31, 2012	43,371,912	3,310,074	4,172,050	(13,824,826)	37,029,209
Net loss for the period	-	-	-	(5,184,996)	(5,184,996)
Foreign currency translation	-	-	(832,794)	-	(832,794)
Total Comprehensive (loss) income	-	-	(832,794)	(5,184,996)	(6,017,790)
Share based payments	-	148,968	-	-	148,968
Balance – June 30, 2013	43,371,912	3,459,041	3,339,256	(19,009,822)	31,160,387
Net loss for the period	-	-	-	(827,164)	(827,164)
Foreign currency translation	-	-	7,978	-	7,978
Total Comprehensive (loss) income	-	-	7,978	(827,164)	(819,186)
Balance – December 31, 2013	43,371,912	3,459,041	3,347,234	(19,836,986)	30,341,201

Southern Hemisphere Mining Limited (An Exploration Stage Company)

Condensed consolidated interim statements of cash flows

(Expressed in U.S.

For the half years ended	December 31, 2013 \$	December 31, 2012 \$
Cash provided by (used in)		
Operating activities:		
Net loss for the period	(827,164)	(2,006,133)
<i>Adjustments for non-cash items:</i>		
Depreciation	11,075	14,609
Foreign exchange (gain) loss	(71,146)	29,135
Impairment expenses	7,963	321,169
Accrued revenue	-	(61,000)
Share based compensation	-	488,767
<i>Changes in non-cash working capital items:</i>		
Other assets	(186,975)	12,809
Trade and other payables	(51,248)	570,731
Other liabilities and employee benefits	(1,799)	1,927
	(1,119,294)	(627,986)
Investing activities:		
Exploration and evaluation assets	16,195	(2,968,531)
Property, plant and equipment	(28,907)	(19,043)
	(12,712)	(2,987,573)
Financing activities:		
Issuance of common shares	-	5,000,000
Costs of share issuance	-	(86,565)
	-	4,913,435
Effect of exchange rates on cash and cash equivalents	36,718	55,580
(Decrease) Increase in cash and equivalents	(1,095,288)	1,353,457
Cash and cash equivalents, beginning of period	1,627,077	4,172,987
Cash and cash equivalents, end of period	531,789	5,526,444
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	531,789	5,526,444
Cash held on term deposit	-	-
	531,789	5,526,444

Southern Hemisphere Mining Limited (An Exploration Stage Company)

Notes to the condensed consolidated interim financial statements

For the half year ended December 31, 2013

(Expressed in U.S. Dollars)

1. GENERAL INFORMATION

Southern Hemisphere Mining Limited ("Southern Hemisphere" or the "Company") is a Company limited by shares incorporated and domiciled in Australia whose ordinary shares are publicly traded on the Australian Securities Exchange ("ASX"). The address of the registered office is Suite 7, 1200 Hay Street, West Perth, Western Australia. The Group also maintains an office in Santiago, Chile.

The financial report of the Group as at and for the half year ended December 31, 2013 was authorised for issue in accordance with a resolution of the Directors on March 13, 2014.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half year.

New and revised Standards and amendments thereof and Interpretations effective for the current half year that are relevant to the Group include:

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'
- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'
- AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'
- AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'

Southern Hemisphere Mining Limited (An Exploration Stage Company)
Notes to the condensed consolidated interim financial statements
For the half year ended December 31, 2013
(Expressed in U.S. Dollars)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impact of the application of AASB 11

AASB 11 applies to the Group's interest in joint arrangements. Prior to the transition to AASB 11 the Group classified interests in joint arrangements as jointly controlled assets and accounted for its share of assets and liabilities, the income from the sale or use of its share of the arrangement's output and its share of the expenses incurred in respect of jointly controlled assets. Upon adoption of AASB 11, the group determined its interest in joint arrangements to be classified as joint operations and will continue to account for its share of assets and liabilities, the income from the sale or use of its share of the arrangement's output and its share of the expenses incurred in respect of jointly controlled assets. The adoption of AASB 11 did not have a material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 12

AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements. However this did not result in any changes to the consolidated financial statements.

Impact of the application of AASB 13

The Group has adopted AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 from 1 July 2013 together with consequential amendments to other Standards. These Standards became mandatorily applicable from 1 January 2013 and became applicable to the Group for the first time in the current half-year reporting period 1 July 2013 to 31 December 2013. AASB 13 sets out a comprehensive framework for measuring the fair value of assets and liabilities and prescribes enhanced disclosures regarding all assets and liabilities measured at fair value. The adoption of this Accounting Standard does not impact the financial performance or financial position of the Group.

Basis of Preparation and going concern

These condensed consolidated interim financial statements have been prepared on a historical cost basis using the accrual basis of accounting except for cash flow information. The consolidated financial statements have been prepared using AIFRS principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

3. REVENUE AND EXPENSES

	December 31, 2013	December 31, 2012
	\$	\$
Other income*		
Joint Venture and administration fees for Project operations under Company management	238,353	61,000
Los Rulos Joint Venture Execution Payment	112,281	-
	<u>350,634</u>	<u>61,000</u>

*During the six month period, a progress payment of AUD\$350,000 was received per the terms of a farm-in agreement on the Mantos Grandes Project. This amount was applied against the cost base of the said Project.

Southern Hemisphere Mining Limited (An Exploration Stage Company)

Notes to the condensed consolidated interim financial statements

For the half year ended December 31, 2013

(Expressed in U.S. Dollars)

3. REVENUE AND EXPENSES (cont'd)

Employee benefits expenses

	December 31, 2013	December 31, 2012
	\$	\$
Salary and wages	718,088	778,909
Superannuation and post employment benefits	52,546	65,045
Share based payments expense*	-	488,767
	770,634	1,332,721

*Based on vesting dates

4. EXPLORATION AND EVALUATION ASSETS

Project	Opening balance July 1, 2013	Additions	Other adjustments	Closing balance December 31, 2013
	\$	\$		\$
El Arrayan	2,389,511	-	-	2,389,511
Las Santas	2,949,788	-	-	2,949,788
San Jose	841,653	-	-	841,653
Los Pumas	5,068,865	51,594	-	5,120,459
Llahuin (a)(b)	10,642,900	-	-	10,642,900
Chitigua	2,909,753	5,656	(23,155)	2,892,254
Minera America del Sur	1,456,728	-	-	1,456,728
Mantos Grandes (c)	990,502	23,957	(325,927)	688,532
Minera Panamericana (d)	1,593,534	-	(35,110)	1,558,424
Los Rulos (d)	-	251,680	35,110	286,790
Iron Sands	793,424	-	-	793,424
Total	29,636,657	332,887	(349,082)	29,620,463

A net Chilean Value Added Tax (VAT) receivable balance was written off as an impairment expense to the value of \$7,963 (December 2012 period- \$321,169) as recovery of this asset is uncertain. Chilean VAT credits are derived from exploration expenditure.

(a) Acquisition – Llahuin copper concessions

On January 14, 2013, the Company announced the completion of the purchase of the Llahuin Amapola 1-4 licences under the Option Agreement dated July 8, 2011 (“Llahuin Option Agreement”). Under the terms of the Llahuin Option Agreement, the Company made a final cash payment of \$1.285 million to the vendor and as a result is the legal owner of the licences. The total consideration paid under the Llahuin Option Agreement was \$1.875 million.

(b) Farm-in arrangement, Llahuin Project – Lundin Mining Corporation

On November 1, 2012, the Company formalised a farm-in arrangement with Lundin Mining Corporation (“Lundin Mining”) for the Llahuin Project. Under this arrangement, Lundin Mining may earn up to a 75% interest in the Llahuin Project by spending up to \$35 million on exploration on the Llahuin Project over a 6 year period. A separate entity, Minera Llahuin SCM has been set up to hold the Llahuin Project. The Company consolidates this entity on a line by line basis. The Company does not recognise the contributions and related exploration spending of Lundin Mining in the carrying value of the Llahuin Project. A reassessment of this position will occur as the farm-in arrangement progresses.

Southern Hemisphere Mining Limited (An Exploration Stage Company)**Notes to the condensed consolidated interim financial statements****For the half year ended December 31, 2013**

(Expressed in U.S. Dollars)

4. EXPLORATION AND EVALUATION ASSETS (cont'd)**(c) Farm-in arrangement, Mantos Grandes Project – Cobre Montana NL**

On September 26, 2013, the Company formalised a farm-in arrangement with Cobre Montana NL ("Cobre") for the Mantos Grandes Project. Under this arrangement, Cobre may earn up to a 65% interest in the Mantos Grandes Project for a total expenditure of AUD\$2.85 million, made up of AUD\$1.50 million in Project sole funding and AUD\$1.35 million in cash payments to Southern Hemisphere.

The Company currently recognises all of its historical exploration and concession maintenance costs. A reassessment of this position will occur as the farm-in arrangement progresses. During the period, a progress payment of AUD\$350,000 was received per the terms of the arrangement and was applied against the cost base of the asset.

(d) Joint Venture arrangement, Los Rulos Project – Lundin Mining

On November 13, 2013 the Company entered into a 50/50 Joint Venture with Lundin Mining ("Los Rulos Joint Venture") which subsequently acquired an interest in three prospects (Armandino, Guayacan and Polvareda 2) within the Los Rulos area. Under the Joint Venture arrangement, after two years Lundin Mining has the right to acquire a further 15% equity (65% in total) of the joint venture entity (Minera Los Rulos SCM) by paying Southern Hemisphere twice Southern Hemisphere's expenditure to date. The Company reflects Minera Los Rulos SCM on the basis of a 50% holding of the entities shares.

The Company does not recognise the contributions and related exploration spending of Lundin Mining in the carrying value of the Los Rulos Project. A reassessment of this position will occur as the Los Rulos Joint Venture progresses. Spending incurred in the Los Rulos area prior to execution of the Los Rulos Joint Venture has been reallocated from Minera Panamericana to the Los Rulos Project.

Project	Opening balance July 1, 2012 \$	Additions \$	Impairment Expense* \$	Closing balance June 30, 2013 \$
El Arrayan	2,329,967	59,544	-	2,389,511
Las Santas	2,912,246	37,542	-	2,949,788
San Jose	803,336	38,317	-	841,653
Los Pumas	9,297,793	326,541	(4,555,469)	5,068,865
Llahuin	6,299,201	4,343,699	-	10,642,900
Minera Panamericana	1,552,345	41,189	-	1,593,534
Chitigua	2,888,680	21,073	-	2,909,753
Minera America del Sur	1,368,459	88,269	-	1,456,728
Mantos Grandes	965,150	25,352	-	990,502
Iron Sands	781,264	12,160	-	793,424
Total	29,198,441	4,993,685	(4,555,469)	29,636,657

* In Financial year 2013, the Board assessed the value of the Los Pumas Project and with due consideration to the manganese price and consistent with the Company's overall shift of focus to other projects, decided to write down the Los Pumas Project's carrying value. The Board will reassess this carrying value as the manganese market improves.

Southern Hemisphere Mining Limited (An Exploration Stage Company)**Notes to the condensed consolidated interim financial statements****For the half year ended December 31, 2013**

(Expressed in U.S. Dollars)

5. SHARE CAPITAL

	Number of shares	\$
Balance, June 30, 2012	153,092,487	38,458,476
Share issued pursuant to private placement (a)	19,800,000	5,000,000
Costs of private placement	-	(86,564)
Balance, December 31, 2012	172,892,487	43,371,912
Balance, June 30, 2013	172,892,487	43,371,912
Balance, December 31, 2013	172,892,487	43,371,912

- a) On November 1, 2012, the Company conducted a private placement to Lundin Mining of 19,800,000 common shares of the Company. Total gross proceeds raised from the private placement were \$5,000,000. Transaction costs incurred for the placement totalled \$86,564.

6. SEGMENT INFORMATION

The results and financial position of the Company's single operating segment, exploration activities in Chile, are prepared for the Board on a basis consistent with the AASBs, and thus no additional disclosures in relation to the revenues, profit or loss, assets and liabilities and other material items have been made.

7. LOSS PER SHARE

Loss per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the period ended December 31, 2013 was 172,892,487 (2012: 159,118,574) for the purpose of calculating the basic and diluted loss per share. As a result of the net losses for the half years ended December 31, 2013 and 2012, the exercise of all outstanding options and warrants has been excluded from the calculation of diluted loss per share given their anti-dilutive nature.

8. SHARE BASED COMPENSATION

Under the terms of a share option plan initially approved by shareholders on November 1, 2006, and re-approved on November 26, 2012, the Company may grant incentive share options numbering up to 10% of the number of issued and outstanding common shares of the Company to its officers, Directors, employees and consultants, for the purchase of common shares of the Company. Share options are non-transferable. The Board of Directors of the Company determines the exercise price, but it may be no less than the current market price at the time of the grant. Options have a maximum term of 5 years and expire 90 days after the termination of employment or contracting arrangement of the option holder.

The Company records the share based compensation expense over the vesting period of the options granted. During the year ended June 30, 2013, the Company granted 4,200,000 options which were valued at \$0.057 per option using the Black-Scholes option pricing model with the following inputs:

- | | |
|--|---|
| 1. options are granted for no consideration; | 2. exercise price – AUD\$0.21; |
| 3. issue date – September 10, 2012; | 4. expiry date – December 31, 2014; |
| 5. expected price volatility of the Company's shares – 100%; | 6. risk-free interest rate – 2.63%; and |
| 7. spot price at date of valuation – AUD\$0.15. | |

Southern Hemisphere Mining Limited (An Exploration Stage Company)
Notes to the condensed consolidated interim financial statements
For the half year ended December 31, 2013
(Expressed in U.S. Dollars)

8. SHARE BASED COMPENSATION (cont'd)

Vesting of options may be at the time of granting of the option or over a period as set out in each option agreement. Once approved and vested, options are exercisable at any time until expiry, unless subject to a restriction agreement.

No options were exercised, no options lapsed and no options expired during the half year ended December 31, 2013.

	Number of Options	Weighted Average Exercise Price \$AUD
Balance at June 30, 2012	11,881,730	0.40
Options issued – September 10, 2012	4,200,000	0.21
Options expired – December 29, 2012	(5,050,000)	0.29
Balance at December 31, 2012	11,031,730	0.35
Options expired – January 13, 2013	(2,481,730)	0.42
Options expired – June 30, 2013	(4,350,000)	0.54
Balance at June 30, 2013	4,200,000	0.21
Balance at December 31, 2013	4,200,000	0.21

The following table summarises the outstanding and exercisable options at December 31, 2013:

Options exercisable	Exercise price \$AUD	Remaining contractual life (years)	Expiry date
4,200,000	0.21	1.00	December 31, 2014

9. RELATED PARTIES

Key management personnel compensation

The remuneration of Directors and other members of key management personnel during the three month periods ended December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
	\$	\$
Short term benefits	178,521	235,375
Post-employment benefits	12,247	16,382
Share based payments*	-	69,459
	190,768	321,216

*Based on vesting dates.

Apart from the details disclosed, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at period end.

10. WARRANTS

As at December 31, 2013, the Company had no outstanding and exercisable warrants.

Southern Hemisphere Mining Limited (An Exploration Stage Company)

Notes to the condensed consolidated interim financial statements

For the half year ended December 31, 2013

(Expressed in U.S. Dollars)

11. COMMITMENTS

In order to maintain its current concession holdings, the Company must make annual payments of approximately \$350,000 during the next 12 months to Chilean mining authorities.

The Company leases office premises in Australia and Chile under operating leases renewed each year and therefore has no lease commitments later than one year. Commitments for minimum lease payments in relation to operating leases are payable as follows:

	December 31, 2013	June 30, 2013
	\$	\$
Within one year	66,994	71,325

12. CAPITAL DISCLOSURES

The Company's objective when managing capital is to raise sufficient funds in order to maintain and execute the objectives identified in each mineral property project in the Company's exploration plan. There is no quantitative return of capital criteria set out for management, but instead the Company relies on the expertise of management to further develop and maintain its activities.

The Company considers its capital to be equity which comprises common shares, share based payments reserve, foreign currency translation reserve and accumulated deficit, which at December 31, 2013 amounted to \$30,341,201 (June 30, 2013 - \$31,160,387).

The mineral properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as required.

The Company monitors its capital through monthly Board reporting including management accounts and forecasts combined with appropriate external financial, corporate and legal advice when required. The Company is not subject to any externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the half year.

13. SUBSEQUENT EVENTS

On February 3, 2014, the Company announced that it had successfully raised up to AUD\$1.2 million through a placement of shares to sophisticated and professional Investors at AUD\$0.045 per new share with 1 free option for every 2 new shares subscribed for.

The Company also announced an underwritten non-renounceable 1 for 4 Rights Issue to raise approximately AUD\$2.2 million at AUD\$0.045 per new share with 1 free option for every 2 new shares subscribed for. The Rights Issue closed on March 7, 2014.

Three Directors have signed sub-underwriting agreements with respect to the Rights Issue. The Company considers these arrangements to be on reasonable arms length terms. An entity associated with Mr Trevor Tennant is sub-underwriting 6,182,989 new shares and 3,091,494 new options. An entity associated with Mr James Pearson is sub-underwriting 2,447,805 new shares and 1,223,902 new options. An entity associated with Dr John Tarrant is sub-underwriting 555,556 new shares and 277,778 new options.