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13 February 2012

Australian Securities Exchange
Level 8
Exchange Plaza
2 The Esplanade
PERTH WA 6000

Dear Sir/Madam

**Quarterly Financial Statements**

Please refer below for the unaudited condensed consolidated interim financial statements of Southern Hemisphere Mining Limited for the three and six month periods ended 31 December 2011, as issued in Canada.

Please note the Financial Statements are presented in United States dollars and should be read in conjunction with the corresponding Management Discussion and Analysis.

Yours faithfully

DHall

**Derek Hall**
**Company Secretary**

# Southern Hemisphere Mining Limited

(An Exploration Stage Company)

**Condensed Consolidated Interim Financial Statements**
**For the Three and Six Month Periods Ended December 31, 2011 and December 31, 2010**

(Unaudited)

**CONTENTS**




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## MANAGEMENT’S COMMENTS ON UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Southern Hemisphere Mining Limited for the three and six month periods ended December 31, 2011 have been prepared by and are the responsibility of the Company’s management. These financial statements have not been reviewed by the Company’s external auditors.

**Southern Hemisphere Mining Limited (An Exploration Stage Company)**
**Condensed consolidated interim statements of financial position**

(Expressed in U.S. Dollars)

| (Unaudited) | December 31, 2011 $ | June 30, 2011 $ | July 1, 2010 $ |
|---|---|---|---|
| | | (Note 18) | (Note 18) |
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 10,813,582 | 16,456,189 | 3,846,126 |
| Other assets | 352,960 | 107,949 | 18,715 |
| | 11,166,542 | 16,564,138 | 3,864,841 |
| **Non-current Assets** | | | |
| Property, plant and equipment (Note 4) | 688,425 | 694,009 | 75,804 |
| Loans due from related parties | - | - | 18,559 |
| Exploration and evaluation assets (Note 5) | 23,759,610 | 20,190,101 | 12,509,855 |
| | 24,448,035 | 20,884,110 | 12,604,218 |
| **Total Assets** | **35,614,577** | **37,448,248** | **16,469,059** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 39,942 | 345,492 | 94,561 |
| Other liabilities | 10,820 | 48,294 | 36,854 |
| Employee benefits | 64,858 | 67,540 | 34,119 |
| Warrant liabilities | - | 231,906 | 1,800,171 |
| | 115,620 | 693,232 | 1,965,705 |
| **Total Liabilities** | **115,620** | **693,232** | **1,965,705** |
| **Shareholders' Equity** | | | |
| Common Shares (Note 7) | 38,458,476 | 38,285,976 | 17,366,830 |
| Contributed Surplus | 2,845,203 | 2,826,106 | 2,211,633 |
| **Accumulated comprehensive income** | 3,837,786 | 4,157,851 | - |
| **Deficit** | (9,642,508) | (8,514,917) | (5,075,109) |
| **Accumulated other comprehensive income and deficit** | (5,804,722) | (4,357,066) | (5,075,109) |
| **Total Equity** | **35,498,957** | **36,755,016** | **14,503,354** |
| **Total Liabilities and Equity** | **35,614,577** | **37,448,248** | **16,469,058** |

**Basis of Preparation** (Note 2)

Approved on behalf of the Board of Directors:

Signed "*David A. Craig*"

David A. Craig, Chairman

Signed "*James Pearson*"

James Pearson, Director

*See accompanying Notes to the condensed consolidated interim financial statements*

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

| | Common Shares | Common Shares | Contributed Surplus | Accumulated Other Comprehensive Income | Accumulated Deficit | Shareholders' Equity |
|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ |
| **Balance – July 1, 2010** | **100,135,687** | **17,366,830** | **2,211,633** | **-** | **(5,075,109)** | **14,503,354** |
| Options exercised (Note 7) | **83,334** | **26,488** | **-** | **-** | **-** | **26,488** |
| Warrants exercised (Note 7) | **3,385,000** | **753,301** | **-** | **-** | **-** | **753,301** |
| Shares issued pursuant to private placement (Note 7) | **33,334,300** | **14,833,591** | **-** | **-** | **-** | **14,833,591** |
| Issue costs – private placement (Note 7) | **-** | **(1,074,585)** | **-** | **-** | **-** | **(1,074,585)** |
| Options forfeited | **-** | **-** | **(17,384)** | **-** | **-** | **(17,384)** |
| Revaluation of financial instruments | | | **191,254** | | | **191,254** |
| Translation adjustment | **-** | **-** | **-** | **2,693,161** | **-** | **2,693,161** |
| Net loss for the period | **-** | **-** | **-** | **-** | **(2,013,973)** | **(2,013,973)** |
| **Balance – December 31, 2010** | **136,938,321** | **31,905,626** | **2,385,503** | **2,693,161** | **(7,089,082)** | **29,895,207** |
| Options forfeited | **-** | **-** | **(90,758)** | **-** | **-** | **(90,758)** |
| Shares issued pursuant to private placement (Note 7) | **14,285,800** | **6,313,488** | **-** | **-** | **-** | **6,313,488** |
| Issue costs – private placement (Note 7) | **-** | **(668,233)** | **-** | **-** | **-** | **(668,233)** |
| Shares issued pursuant to acquisition (Note 7) | **1,301,700** | **735,094** | **-** | **-** | **-** | **735,094** |
| Option vesting expense | **-** | **-** | **57,840** | **-** | **-** | **57,840** |
| Options granted | **-** | **-** | **473,522** | **-** | **-** | **473,522** |
| Translation adjustment | **-** | **-** | **-** | **1,464,690** | **-** | **1,464,690** |
| Net loss for the period | **-** | **-** | **-** | **-** | **(1,425,835)** | **(1,425,835)** |
| **Balance – June 30, 2011** | **152,525,821** | **38,285,976** | **2,826,106** | **4,157,851** | **(8,514,917)** | **36,755,016** |
| Options exercised | **566,666** | **172,501** | **-** | **-** | **-** | **172,501** |
| Options forfeited | **-** | **-** | **(22,626)** | **-** | **-** | **(22,626)** |
| Option vesting expense | **-** | **-** | **41,723** | **-** | **-** | **41,723** |
| Translation adjustment | **-** | **-** | **-** | **(320,065)** | **-** | **(320,065)** |
| Net loss for the period | **-** | **-** | **-** | **-** | **(1,127,591)** | **(1,127,591)** |
| **Balance – December 31, 2011** | **153,092,487** | **38,458,476** | **2,845,203** | **3,837,786** | **(9,642,508)** | **35,498,957** |

*See accompanying Notes to the condensed consolidated interim financial statements*

**Southern Hemisphere Mining Limited (An Exploration Stage Company)**
**Condensed consolidated interim statements of operations, comprehensive income and deficit**
(Expressed in U.S. Dollars)
(Unaudited)

| | **December 31, 2011** | December 31, 2010 | **December 31, 2011** | December 31, 2010 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| | **(3 months)** | (3 months) | **(6 months)** | (6 months) |
| **Expenses** | | | | |
| Amortization | **3,339** | 1,696 | **5,600** | 5,110 |
| Investor relations | **21,080** | 22,320 | **40,617** | 40,225 |
| Insurance | **9,890** | 5,922 | **9,890** | 11,069 |
| Legal fees | **26,803** | 189,972 | **40,492** | 236,953 |
| Office and administration | **28,629** | 25,281 | **63,842** | 92,063 |
| Professional fees | **92,393** | 66,713 | **188,599** | 110,155 |
| Rent & utilities | **22,898** | 18,832 | **46,116** | 43,509 |
| Salaries & wages | **389,358** | 300,618 | **766,154** | 619,733 |
| Travel and accommodation | **40,384** | 46,945 | **61,797** | 90,381 |
| Transfer agent & filing fees | **19,078** | 48,498 | **68,610** | 74,448 |
| Warrant liabilities adjustment | **-** | (150,847) | **(214,310)** | 870,110 |
| Write off Chilean VAT tax receivable | **437,681** | - | **437,681** | - |
| Stock based compensation | **19,097** | - | **19,097** | - |
| **Operating loss** | **(1,110,629)** | (575,951) | **(1,534,185)** | (2,193,756) |
| Interest income | **204,582** | 52,748 | **384,211** | 93,292 |
| Other income | | - | **-** | 4,702 |
| Foreign exchange gain | **3,395** | 129,688 | **22,383** | 81,789 |
| **Loss before taxes** | **(902,652)** | (393,515) | **(1,127,591)** | (2,013,973) |
| Income taxes | **-** | - | **-** | - |
| **Net loss for the period** | **(902,652)** | (393,515) | **(1,127,591)** | (2,013,973) |
| **Other comprehensive income for the period** | **1,070,486** | 1,076,361 | **(320,065)** | 2,693,161 |
| **Comprehensive (loss) income for the period** | **167,834** | 682,846 | **(1,447,656)** | 679,188 |
| **Deficit, beginning of period** | **(8,739,856)** | (6,695,567) | **(8,514,917)** | (5,075,109) |
| **Deficit, end of period** | **(9,642,508)** | (7,089,082) | **(9,642,508)** | (7,089,082) |
| Basic and diluted loss per share (Note 11) | 0.006 | 0.003 | 0.007 | 0.018 |

*See accompanying Notes to the condensed consolidated interim financial statements*

**Southern Hemisphere Mining Limited (An Exploration Stage Company)**
**Condensed consolidated interim statements of cash flows**

(Expressed in U.S. Dollars)

(Unaudited)

| | **December 31, 2011 $ (3 months)** | December 31, 2010 $ (3 months) | **December 31, 2011 $ (6 months)** | December 31, 2010 $ (6 months) |
|---|---|---|---|---|
| **Cash provided by (used in)** | | | | |
| **Operating activities:** | | | | |
| Net loss for the period | **(902,652)** | (393,515) | **(1,127,591)** | (2,013,973) |
| *Adjustments for non-cash items:* | | | | |
| Amortization | **3,339** | 1,696 | **5,600** | 5,110 |
| Foreign exchange adjustment | **(23,882)** | (129,688) | **(41,480)** | (81,789) |
| Warrant liability adjustment | **437,681** | (150,847) | **223,371** | 870,110 |
| Stock based compensation | **19,097** | | **19,097** | |
| *Changes in non-cash working capital items:* | | | | |
| Other assets | **(154,763)** | (119,719) | **(245,011)** | (38,867) |
| Accounts payable | **(383,617)** | 436,732 | **(305,550)** | 342,110 |
| Accrued liabilities | **(11,140)** | (285,531) | **(40,156)** | (27,933) |
| | **(1,015,937)** | (640,872) | **(1,511,719)** | (945,233) |
| **Investing activities:** | | | | |
| Mineral properties | **(2,072,982)** | (1,019,898) | **(3,569,509)** | (1,978,305) |
| Capital assets | **(322)** | (242,855) | **(16)** | (239,861) |
| | **(2,073,304)** | (1,262,753) | **(3,569,525)** | (2,218,166) |
| **Financing activities:** | | | | |
| Loans due to related parties | **-** | - | **-** | 19,092 |
| Warrants / options exercised | **12,991** | 127,044 | **172,501** | 779,789 |
| Issuance of common shares | **-** | 14,833,591 | **-** | 14,833,591 |
| Costs of share issuance | **-** | (1,074,585) | **-** | (1,074,585) |
| | **12,991** | 13,886,050 | **172,501** | 14,557,888 |
| **Increase (Decrease) in cash and equivalents** | **(3,076,250)** | 11,982,426 | **(4,908,744)** | 11,394,490 |
| Cash and cash equivalents, beginning of period | **13,233,146** | 3,250,493 | **16,456,189** | 3,846,126 |
| Effect of exchange rates on cash and cash equivalents | **656,687** | (478,365) | **(733,863)** | (486,062) |
| Cash and cash equivalents, end of period | **10,813,582** | 14,754,554 | **10,813,582** | 14,754,554 |
| **Cash and cash equivalents consist of:** | | | | |
| Cash on hand and balances with banks | | | **1,879,095** | 1,736,824 |
| Cash held on term deposit | | | **8,934,487** | 13,017,729 |
| | | | **10,813,582** | 14,754,554 |
| **Supplementary cash flow information:** | | | | |
| Interest received | **204,582** | 52,748 | **384,211** | 93,292 |
| Income taxes paid | **-** | - | **-** | - |
| | **204,582** | 52,748 | **384,211** | 93,292 |

*See accompanying Notes to the condensed consolidated interim financial statements*

## 1. NATURE OF OPERATIONS

Southern Hemisphere Mining Limited (the "Company") is an exploration stage company engaged in the acquisition and exploration of mineral properties, principally located in Chile, and has not yet determined whether its mineral properties contain mineral reserves that are economically recoverable. The recovery of amounts capitalized for mineral exploration properties on the condensed consolidated interim statements of financial position is dependent upon the existence of economically recoverable mineral deposits, the ability of the Company to obtain the necessary financing to complete exploration and/or development of the properties, and upon future profitable production or proceeds from the disposition of the properties.

The Company was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) and is domiciled in Canada. The Company's Registered Office is located at Suite 1750, 1185 West Georgia Street, Vancouver, British Columbia, Canada V6E 4E6. Operations are managed from the Company's office located at Suite 7, 1200 Hay Street, West Perth, Western Australia, Australia. The Company also maintains an office in Santiago, Chile.

As at December 31, 2011 the Company had no source of operating cash flow and a deficit of $9,642,508, operations for the period ended December 31, 2011 have been funded by the issuance of capital. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, the discovery, development or sale of mining reserves and achievement of profitable operations. The Company is planning to meet its future expenditures and obligations by raising funds through public offerings, private placements or by optioning of mineral properties. Although the Company has been successful in obtaining financing in the past, it is not possible to predict whether future efforts will be successful, such financing will be available on acceptable terms, or whether the Company will attain profitable levels of operation.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The following outlines the significant accounting policies under which these condensed consolidated interim financial statements have been prepared for the three and six month periods ended December 31, 2011 and December 31, 2010.

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these condensed consolidated interim financial statements are based on International Financial Reporting Standards ("IFRS") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") issued and outstanding as at February 13, 2012, the date the Board of Directors approved these condensed consolidated interim financial statements for issue. Any subsequent changes to IFRS that are issued and effective as at June 30, 2012, could result in a restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on conversion to IFRS.

The Company's date of transition was July 1, 2010 (the "transition date"). Prior to the adoption of IFRS, the Company's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). An explanation of how the transition of previously prepared financial statements in accordance with Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 18. The comparative figures presented are in accordance with IFRS and have not been audited.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2010 and 2011 annual financial statements, which were prepared in accordance with Canadian GAAP, and the IFRS disclosures included in Note 18.

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

b) Basis of preparation

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 condensed consolidated interim financial statements have been prepared using IFRS 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.

c) Basis of consolidation

The Company's consolidated financial statements include Southern Hemisphere Mining Limited and its subsidiaries, all of which are wholly owned. All inter-company transactions and balances have been eliminated on consolidation.

d) Functional and presentation currency

These condensed consolidated interim financial statements are presented in U.S. dollars ("USD"). In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", management determined that the functional currency of the Canadian parent and its Australian subsidiaries is the Australian Dollar ("AUD"); and the functional currency of the Chilean subsidiaries is USD. Prior to June 30, 2011, the Company had presented its results in Canadian Dollars ("CAD").

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve

e) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with a term to maturity of three months or less at the date of purchase.

f) Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

I. Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are as follows:

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

f) Use of estimates and judgements (cont'd)

*Exploration and Evaluation Assets*

The application of the Company's accounting policy for and determination on recoverability of capitalized exploration and evaluation expenditure requires judgement in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

*Impairment*

Assets, including property, plant and equipment and exploration and evaluation assets, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the fair value often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, rehabilitation and restoration costs, future capital requirements and future operating performance. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed regularly by management.

*Income taxes*

Judgement is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. As the Company is seeking to generate non-assessable, non-exempt income in Chile, for the purposes of the Canadian head entity, a record of prior tax losses is kept but no tax balances have been recognized.

*Fair value of share-based compensation and warrants issued*

The fair value of share-based compensation and warrants issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

*Provisions*

The amount recognized as a provision, including legal, contractual and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

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

g) Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the condensed consolidated interim statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instrument were acquired.

*Financial assets*

*Fair value through profit or loss*
A financial asset can be classified as fair value through profit or loss only if it is designated at fair value through profit or loss or held-for-trading. The Company's financial assets at fair value through profit or loss are held for trading financial assets.

*Loans and receivables*
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method. Any gains or losses on the realization of receivables are included in profit or loss.

*Impairment of financial assets*
All financial assets except for those at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets are impaired. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

*Financial liabilities*

*Fair value through profit or loss*
These liabilities are comprised of derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value with changes in fair value included in profit or loss.

*Other financial liabilities*
They are measured at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in profit or loss.

*Fair values*
Fair values of financial assets and liabilities are based upon quoted market prices available from active markets or are otherwise determined using a variety of valuation techniques and models using quoted market prices.

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

g) Financial instruments (cont'd)

All financial instruments are classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income or loss in the period in which they arise. Transaction costs with respect to instruments not classified as held-for-trading are recognized as an adjustment to the cost of the underlying instruments and amortized using the effective interest method.

Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

| | |
|---|---|
| Cash and cash equivalents | Held for trading |
| Receivables | Loans and receivables |
| Loans due from related parties | Loans and receivables |
| Accounts payable | Other liabilities |
| Accrued liabilities | Other liabilities |
| Loans due to related parties | Other liabilities |

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Fair value measurement for financial instruments and liquidity risk disclosures require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements.

Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

| $ as at 31 December 2011 | **Hierarchy Level (if applicable)** |
|---|---|
| **Financial assets:** | |
| Held for trading, measured at fair value | |
| Cash and cash equivalents | 1 |

h) Income taxes

The Company uses the liability method of accounting for income taxes. Temporary differences arise from the difference between the tax basis of an asset or liability and its carrying amount on the statement of financial position. These temporary differences are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

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

i) Loss per common share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share, according to the treasury stock method, assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the year, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. Diluted loss per share reflects the potential dilution of securities. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the results would be anti-dilutive.

j) Stock based compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. Under IFRS, the Company is required to estimate the number of forfeitures likely to occur on grant date and reflect this in the share-based payment expense revising for actual experiences in subsequent periods.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The Company's stock based compensation plan is described in Note 9.

k) Exploration and evaluation assets

Direct property acquisition costs, field exploration and field supervisory costs relating to specific properties are deferred until the properties to which they relate are brought into production, at which time they will be amortized on a unit of production basis, or until the properties are abandoned, sold or allowed to lapse, at which time they will be written off.

Costs include the cash consideration paid and the fair value of the shares issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. Costs incurred for administration and general exploration that are not project specific, are charged to operations.

The recorded amounts for acquisition costs of properties and their related capitalized exploration and development expenses represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic, at least on an annual basis and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future profitability of each property, or from the sale of the relevant property.

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

k) Exploration and evaluation assets (cont'd)

The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds of disposition of such properties.

l) Long-lived asset impairment

Long-lived assets, which comprise exploration and evaluation assets and property, plant and equipment, are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

For capital assets, if the sum of the undiscounted future cash flows expected from use and residual value is less than carrying amount, the long-lived asset is considered impaired. An impairment loss is measured as the amount by which the carrying value of the long-lived assets exceeds its fair value.

m) Property, plant and equipment

Property, plant and equipment are amortized on the declining balance method at the following rates per annum:

| | |
|---|---|
| Equipment | 10 - 15% |
| Computer equipment and software | 40% |

n) Environmental rehabilitation obligations

The Company's mineral exploration and development activities are subject to various Chilean laws and regulations regarding the protection of the environment. As a result of these, the Company is expected to incur expenses from time to time to discharge its obligations under these laws and regulations.

Decommissioning and environmental costs are estimated based on the Company's interpretation of current regulatory and operating license requirements. Initially, a liability for a decommissioning and environmental provision is recognized as its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding decommissioning and environmental provision is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit of production method or the straight line method, as appropriate. Following the initial recognition of the decommissioning and environmental provision, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market- based discount rate, amount or timing of the underlying cash flows needed to settle the obligation and accreted over time to its present value, (accretion charge is included in the statement of operations within cost of sales). The Company does not currently have any legal obligations relating to the reclamation of its exploration and evaluation assets.

o) Revenue recognition

Interest income is recorded on an accrual basis, as earned.

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

p) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

q) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

*IFRS 7 – Financial instruments: disclosures*

The Accounting Standards Board approved the incorporation of the IASB's amendments to IFRS 7 Financial Instruments: Disclosures and the related amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards into Part I of the Handbook. These amendments were made to Part I in January 2011 and are effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. The amendments relate to required disclosures for transfers of financial assets to help users of the financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Company is currently evaluating the impact of IFRS 7 on its condensed consolidated interim financial statements.

*IFRS 9 – Financial Instruments*

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement, for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive loss. Where such equity instruments are measured at fair value through other comprehensive loss, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive loss indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive loss.

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt if early.

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (cont'd)**

*IFRS 10 – Consolidation*

IFRS 10 was issued in May 2011. It requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 10 is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. IFRS 10 must be adopted in conjunction with IFRS 11 and 12. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

*IFRS 13 – Fair Value Measurement*

IFRS 13 was issued in May 2011. It is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

There is no transition date for IFRS 13 as the standard is not yet effective. The Company has not yet assessed the potential impact of the standard.

*IAS 1, Presentation of Items of Other Comprehensive Income ("OCI"): Amendments to IAS I Presentation of Financial Statements*

IAS 1, Presentation of Items of OCI: Amendments to IAS I Presentation of Financial Statements was issued in June 2011. The amendments stipulate the presentation of net earnings and OCI and also require the grouping of items within OCI based on whether the items may be subsequently reclassified to profit or loss.

Amendments to IAS 1 are effective for the Company beginning on January 1, 2012 with retrospective application and early adoption permitted. The adoption of the amendments to this standard is not expected to have a material impact on the Company's financial statements.

*IAS 24 Related party disclosures*

A revised version of IAS 24 Related party disclosures ("IAS 24") was issued by the IASB on November 4, 2009. IAS 24 requires entities to disclose in their consolidated financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this issuance did not have a significant impact on the consolidated financial statements.

(Expressed in U.S. Dollars unless otherwise stated)

## 4. PROPERTY, PLANT AND EQUIPMENT

| | December 31, 2011<br>$ | June 30, 2011<br>$ | July 1, 2010<br>$ |
|---|---|---|---|
| Computer software – cost | 68,888 | 71,736 | 14,190 |
| Accumulated amortization | (20,434) | (21,279) | (12,450) |
| Net book value | 48,454 | 50,457 | 1,740 |
| | | | |
| Equipment - cost | 670,876 | 667,430 | 84,254 |
| Accumulated amortization | (30,905) | (23,878) | (10,190) |
| Net book value | 639,971 | 643,552 | 74,064 |
| **Total net book value** | 688,425 | 694,009 | 75,804 |

## 5. EXPLORATION AND EVALUATION ASSETS

| **Project** | **Opening balance July 1, 2011**<br>$ | **Additions**<br>$ | **Closing balance December 31, 2011**<br>$ |
|---|---|---|---|
| El Arrayan | 2,282,841 | 5,478 | 2,288,319 |
| Las Santas | 2,874,206 | - | 2,874,206 |
| San Jose | 767,168 | - | 767,168 |
| Los Pumas | 8,254,139 | 232,679 | 8,486,818 |
| Llahuin (b) | - | 1,990,722 | 1,990,722 |
| Minera Panamericana** | 2,953,025 | 1,340,630 | 4,293,655 |
| Minera America | 1,351,308 | - | 1,351,308 |
| Mantos Grandes | 909,150 | - | 909,150 |
| Iron Sands | 798,264 | - | 798,264 |
| **Total** | 20,190,101 | 3,569,509 | 23,759,610 |

| **Project** | **Opening balance July 1, 2010**<br>$ | **Additions**<br>$ | **Closing balance June 30, 2011**<br>$ |
|---|---|---|---|
| El Arrayan | 1,392,619 | 890,222 | 2,282,841 |
| Las Santas | 2,352,523 | 521,683 | 2,874,206 |
| San Jose | 638,079 | 129,089 | 767,168 |
| Los Pumas | 4,107,904 | 4,146,235 | 8,254,139 |
| Minera Panamericana | 1,804,025 | 1,149,000 | 2,953,025 |
| Minera America | 1,075,033 | 276,275 | 1,351,308 |
| Mantos Grandes | 749,901 | 159,249 | 909,150 |
| Iron Sands (a) | - | 798,264 | 798,264 |
| Chilean VAT receivable* | 389,771 | (389,771) | - |
| **Total** | 12,509,855 | 7,680,246 | 20,190,101 |

* Chilean VAT tax receivable with additions was written off in the 2011 financial year, not recognized at group level.
**Includes key property Chitigua. During the period, materially all additions to this balance relate to Chitigua.

(a) Acquisition – Iron Sands Concessions

In July 2010 the Company nominally obtained beneficial ownership of iron sands concessions which were held by a related party; Centralian Mining Pty Ltd ("Centralian"). The transfer of the beneficial ownership was formalized in November 2010 between Centralian and the Company to recognize the pre July 2010 ownership of the concessions by Centralian.

(Expressed in U.S. Dollars unless otherwise stated)

## 5. EXPLORATION AND EVALUATION ASSETS (cont'd)

Pursuant to this agreement, payment to Centralian of $735,094 was made in the form of the Company's common shares to confirm that the Company had beneficial ownership of the Centralian concessions. The beneficial acquisition (and issue of the shares and subsequent re-issuance as Chess Depositary Interests ("CDIs") on the ASX, completed on May 2, 2011) has been approved by shareholders. These CDIs totalling 1,301,700 are subject to a 12 month escrow with respect to trading on the ASX.

(b) Acquisition – Llahuin copper concessions

In July 2011, the Company signed an Option Agreement to purchase a 100% interest in the Llahuin Copper concessions, via a wholly owned Chilean subsidiary. Under the terms of the Option Agreement, the Company will acquire the licenses by making staged cash payments of USD$615,000 over the course of 12 months from the date of the Agreement and the issue shares to the value of USD$1.25 million, 18 months from the date of the Agreement. The total consideration is USD$1.87 million.

## 6. RELATED PARTY TRANSACTIONS AND BALANCES

For the three month period ended December 31, 2011, the Company had certain arrangements in place with related parties to provide management services that the Company requires in the normal course of business.

| | December 31, 2011<br>$ | December 31, 2010<br>$ |
|---|---|---|
| Andes Consulting Pty Ltd - (a) | - | 7,445 |
| Plough Lane Superannuation Pty Ltd (b) | 11,250 | - |

Loans due from and to related parties are non-interest bearing and have no specified terms of repayment. Any amounts due are expected to be paid within the next year and have been classified as current liabilities in these financial statements.

| | December 31, 2011<br>$ | June 30, 2011<br>$ | July 1, 2010<br>$ |
|---|---|---|---|
| Loans due from related parties Ferrifera – (c) | - | - | 18,559 |

(a) Andes Consulting Pty Ltd is an Australian incorporated company controlled by a previous director of the Company to which director's fees were paid on a monthly basis.

(b) Plough Lane Superannuation Pty Ltd is an Australian incorporated company controlled by a director of the Company to which superannuation contributions are paid on a monthly basis.

(c) Ferrifera was a related entity involved with the iron sands concessions (refer to Note 5(a)). Once the transaction was completed this balance was extinguished.

*Compensation of key management personnel*

The remuneration of directors and other members of key management personnel during the three month periods ended December 31, 2011 and 2010 are as follows:-

| | December 31, 2011<br>$ | December 31, 2010<br>$ |
|---|---|---|
| Salaries and director's fees | 181,728 | 202,374 |
| Share-based payments | - | - |
| | 181,728 | 202,374 |

(Expressed in U.S. Dollars unless otherwise stated)

## 7. SHARE CAPITAL

Unlimited number of authorized common shares with no par value

| | Number of shares | $ |
|---|---|---|
| **Balance, June 30, 2010** | **100,135,687** | **17,366,830** |
| Warrants exercised – (a) | 3,385,000 | 753,301 |
| Options exercised – (b) | 83,334 | 26,488 |
| Shares issued pursuant to a private placement – (c) | 33,334,300 | 14,833,591 |
| Costs of private placement | - | (1,074,585) |
| **Balance, December 31, 2010** | **136,938,321** | **31,905,626** |
| Shares issued pursuant to a private placement – (c) | 14,285,800 | 6,313,488 |
| Costs of private placement | - | (668,233) |
| Shares issued on acquisition of iron sands concessions - Note 5 (a) | 1,301,700 | 735,094 |
| **Balance, June 30, 2011** | **152,525,821** | **38,285,976** |
| Options exercised – (d) | 500,000 | 159,510 |
| Options exercised – (e) | 66,666 | 12,991 |
| **Balance, December 31, 2011** | **153,092,487** | **38,458,476** |

a) During the year ended June 30, 2011, warrant holders exercised 3,385,000 share purchase warrants at an exercise price of CAD $0.20 per share to acquire 3,385,000 common shares of the Company. As the warrants were CAD denominated, the warrants were classified as a liability and revalued to fair value.

b) During the year ended June 30, 2011, option holders exercised 83,334 options at an exercise price of AUD$0.30 per share to acquire 83,334 common shares of the Company.

c) During October 2010, the Company conducted an offering (the "Offering") consisting of the issue of 47,620,100 shares over 3 tranches, with the final tranche settling in February 2011. Total gross proceeds raised from the placement were $21,147,080. Transaction costs incurred across the complete Offering totalled $1,742,818.

d) During the period ended December 31, 2011, option holders exercised 500,000 options at an exercise price of AUD$0.30 per share to acquire 500,000 common shares of the Company.

e) During the period ended December 31, 2011, option holders exercised 66,666 options at an exercise price of CAD$0.20 per share to acquire 66,666 common shares of the Company.

(Expressed in U.S. Dollars unless otherwise stated)

## 8. WARRANTS

As at December 31, 2011, the following warrants were issued and outstanding. This Note should be read in conjunction with Note 9:

| | Warrants Number | Weighted Average Exercise Price $CAD | Weighted Average Exercise Price $CAD | Weighted Average Exercise Price $CAD |
|---|---|---|---|---|
| Balance at June 30, 2010 | 10,885,000 | 0.39 | - | - |
| Warrants exercised – Note 7 (a) | (3,385,000) | 0.20 | - | - |
| **Balance at June 30, 2011** | **7,500,000** | **0.40** | - | - |
| Warrants expired | (7,500,000) | **0.40** | - | - |
| **Balance at December 31, 2011** | **-** | **-** | - | - |

As at December 31, 2011, the Company had no outstanding and exercisable warrants.

## 9. STOCK BASED COMPENSATION

Under the terms of a stock option plan initially approved by shareholders on November 1, 2006, and re-approved on 30 November 2011, the Company may grant incentive stock 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. Stock 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 five years and expire 90 days after the termination of employment or other contracting arrangement of the option holder.

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. The Company records the stock-based compensation expense over the vesting period of the options granted.

During the year ended June 30, 2010, the Company granted 5,200,000 options, which have been recorded as a stock based compensation expense and added to Contributed Surplus in Shareholder's Equity. These options were valued on grant date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 100%, a risk free interest rate of 3.5% - 4.50%, estimated forfeiture rate of 0% and an expected life of between 1.0 – 2.5 years. Of these 5,200,000 options, 3,000,000 were issued pursuant to a Restriction Agreement, these options are not able to be exercised or transferred by the relevant holders until December 5, 2012.

The Company also granted 1,000,000 options to consultants assisting with ASX listing. These options have been valued with reference to the value of the services provided, with the costs included in transaction costs associated with the ASX listing.

During the year ended June 30, 2011, the Company granted 5,050,000 options, which have been recorded as a stock based compensation expense and added to Contributed Surplus in Shareholder's Equity. These options were valued on grant date using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%, expected volatility 100%, a risk free interest rate of 4.64%, estimated forfeiture rate of 0% and an expected life of between 1.5 – 2.0 years. Of these 5,050,000 options, 2,700,000 were issued to directors.

During the year ended June 30, 2011, 833,334 options were forfeited in accordance with the terms of their issue.

## 9. STOCK BASED COMPENSATION (cont'd)

Other than described above, no additional options were granted, 566,666 options were exercised and 1,124,849 options were forfeited in accordance with the terms of their issue during the period from July 1, 2011 to December 31, 2011.

| | Number of Options | Weighted Average Exercise Price $AUD |
|---|---|---|
| **Balance at June 30, 2009** | 3,489,913 | 0.39 |
| Options issued January 5, 2010 | 6,200,000 | 0.30 |
| Options exercised – Note 7 (b) | (83,334) | 0.30 |
| Options forfeited October 14, 2010 | (166,666) | 0.30 |
| Options issued April 29, 2011 | 5,050,000 | 0.54 |
| Options forfeited June 28, 2011 | (666,668) | 0.36 |
| **Balance at June 30, 2011** | **13,823,245** | **0.40** |
| Options exercised – Note 7 (d) | (500,000) | 0.30 |
| Options forfeited September 8, 2011 | (874,849) | 0.39 |
| Options exercised – Note 7 (e) | (66,666) | 0.19 |
| Options forfeited – December 2, 2011 | (250,000) | 0.54 |
| **Balance at December 31, 2011** | **12,131,730** | **0.41** |

The following table summarizes the outstanding and exercisable options at December 31, 2011:

| Options exercisable | Exercise price $AUD | Remaining contractual life (years) | Expiry date |
|---|---|---|---|
| 2,481,730 | 0.39[a] | 1.01 | January 3, 2013 |
| 4,050,000 | 0.30 | 1.00 | December 31, 2012 |
| 1,000,000 | 0.25 | 1.00 | December 31, 2012 |
| 4,600,000 | 0.54 | 1.50 | June 30, 2013 |
| **12,131,730** | **0.41**[b] | **1.19** [b] | |

[a] The actual exercise price of these options is denominated in CAD, all other options have an exercise price denominated in AUD. The exercise price has been converted as at the December 31, 2011 exchange rate of 0.9807.

[b] The amounts shown are weighted averages of the 'Exercise price' and 'Remaining contractual life' respectively.

The options issued in prior periods totalled 3,489,913 and all vested immediately upon issue.

In total, options and warrants to the value of $2,845,203 have been recognized to date.

(Expressed in U.S. Dollars unless otherwise stated)

## 10. INCOME TAXES

| | **December 31, 2011** **$** | **June 30, 2011** **$** |
|---|---|---|
| Net loss for accounting | (1,127,591) | (3,439,808) |
| Expected tax rate | 33.0% | 33.0% |
| Expected tax recovery at statutory rates | (372,105) | (1,135,137) |
| | | |
| Stock based compensation | 19,097 | 614,473 |
| Unrecognised benefit of capital losses | 353,008 | 520,664 |
| **Deferred income tax expense (recovery)** | **-** | **-** |
| | | |
| Non capital losses carried forward | 1,665,038 | 1,312,030 |
| Share issuance costs | - | 499,457 |
| Valuation allowance | (1,665,038) | (1,811,487) |
| **Deferred income tax assets (liability)** | **-** | **-** |

As the Company is seeking to generate non-assessable, non-exempt income in Chile, for the purposes of the Canadian head entity, a record of prior tax losses is kept but no tax balances have been recognized.

The Company had available Canadian non-capital losses of CAD$1,223,600, which may be deducted in the calculation of taxable income in future years that will expire, if not utilized, as follows:

| **Origin** | **Expiry** | **$CAD** |
|---|---|---|
| 2006 | 2026 | 59,100 |
| 2007 | 2027 | 290,100 |
| 2008 | 2028 | 519,300 |
| 2009 | 2029 | 355,100 |
| | | **1,223,600** |

## 11. 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, 2011 was 152,864,408 (2010: 109,684,979) for the purpose of calculating the basic and diluted loss per share. As a result of the net losses for the periods ended December 31, 2011 and 2010, the exercise of options and warrants has been excluded from the calculation of diluted loss per share given their anti-dilutive nature.

## 12. ESCROWED SHARES

At December 31, 2011, the Company had no shares in escrow on the TSXV and 1,301,700 Chess Depositary Interests ("CDIs") in escrow on the ASX in relation to the Centralian transaction, refer to Note 5.

(Expressed in U.S. Dollars unless otherwise stated)

## 13. SEGMENT INFORMATION

The Company is an exploration stage company engaged in the acquisition and exploration of mineral properties. The Company's mineral properties are located in Chile. The Company has one reportable segment operating in two geographical areas as follows:

| **Assets** | December 31, 2011 | June 30, 2011 | July 1, 2010 |
|---|---|---|---|
| | $ | $ | $ |
| Australia | 66,269 | 69,009 | 19,674 |
| Chile | 24,381,766 | 20,815,101 | 12,565,985 |
| **Total** | 24,448,035 | 20,884,110 | 12,585,659 |

## 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair value

The carrying value of the Company's financial instruments, including cash and cash equivalents, receivables, accounts payable and accrued liabilities approximates fair value due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

### Risk disclosures

The main risks the Company's financial instruments are exposed to are credit risk, foreign currency risk, interest rate risk and liquidity risk, each of which is discussed below.

### Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. As the Company has yet to commence mining operations, it has no significant exposure to customer credit risk. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset in the statement of financial position.

The Company's cash is held in an Australian financial institution which is considered to have high creditability. The Company believes that it has no significant credit risk.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has no income from operations and relies on equity fund raising to support its exploration program. Management prepares budgets and ensures funds are available prior to commencement of any such program. Should the need for further equity financing arise, there is a risk that the Company may not be able to sell new common shares at an acceptable price. All obligations are due within the year.

As at December 31, 2011, the Company had a cash balance of $1,879,095 (June 30, 2011 - $3,283,052) and a short term deposit balance of $8,934,487 (June 30, 2011 - $13,208,138), and working capital of $11,050,922 (June 30, 2011 -$16,102,812). Accordingly, the Company is able to meet its current obligations and has minimal liquidity risk.

(Expressed in U.S. Dollars unless otherwise stated)

## 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

### Foreign currency risk

The Company operates in international markets, giving rise to exposure to market risks from changes in foreign exchange rates. As at December 31, 2011, the table below details the foreign denominated financial instruments held by the Company which are recorded at the US dollar equivalent and are subject to foreign currency risk. The table also provides a sensitivity analysis of a 10% strengthening of the US Dollar against foreign currencies as identified which would have increased (decreased) the Company's net loss by the amounts shown.

| Foreign currency risk | AUD<br>$ | CLP<br>$ |
|---|---|---|
| Cash and cash equivalents | 10,607,793 | 10,394,429 |
| Receivables | - | 1,079,810,150 |
| Accounts payable | (23,423) | (1,013,128,479) |
| Total foreign currency net working capital | 10,584,370 | 77,076,100 |
| | **USD<br>$** | **USD<br>$** |
| USD exchange rate at December 31, 2011 | 0.9829 | 519.2 |
| Total foreign currency net working capital in USD | 10,768,511 | 148,452 |
| Impact of a 10% strengthening of the USD on net loss | 1,076,851 | 14,845 |

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

### Interest rate risk

Cash and cash equivalents bear interest at floating rates based on the bank prime rate, and as such, are subject to interest rate cash flow risk resulting from market fluctuations in interest rates. The Company has cash balances in bank accounts and short term deposits. Due to the short-term nature of these financial instruments, the Company believes that risks related to interest rates are not significant to the Company at this time.

### Commodity price risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals. A sustained, significant decline in either the prices of the minerals, the Company's issued equities or investor sentiment could have a negative impact on the Company's ability to raise additional capital.

Once in production the Company initially expects to have an exposure to commodity price risk associated with the production and sale of manganese, copper and gold. However, the Company is still in the exploration stage.

## 15. 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, contributed surplus and deficit, which at December 31, 2011 amounted to $35,498,957 (June 30, 2011 - $36,755,016).

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.

## 15. CAPITAL DISCLOSURES (cont'd)

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 period ended December 31, 2011.

## 16. COMMITMENT

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

## 17. SUBSEQUENT EVENT

No events, which would materially alter the results of the Company, took place in the period January 1, 2012 to February 13, 2012.

## 18. FIRST TIME ADOPTION OF IFRS

The Company adopted IFRS on July 1, 2011 with a transition date of July 1, 2010. IFRS 1, "First-time adoption of International Financial Reporting Standards", provides guidance for the initial adoption of IFRS. IFRS 1 requires retrospective application of the standards in the transition statement of financial position, with all adjustments to assets and liabilities taken to deficit unless certain mandatory and optional exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position:

(a) Business combinations

The Company has elected to not apply IFRS 3 to business combinations that occurred before the date of transition to IFRS, which is an election permitted on first-time adoption of IFRS. IFRS 3 is applicable for business combinations occurring on or after July 1, 2010.

(b) Cumulative foreign currency translation differences

As permitted by the IFRS 1 election for cumulative foreign currency translation differences, the Company has deemed cumulative foreign currency translation differences for foreign operations to be zero at the date of transition. Any gains and losses on subsequent disposal of foreign operations will not be impacted by translation differences that arose prior to the date of transition.

(c) Share-based payments

Under IFRS 1, a first time adopter can elect not to apply IFRS 2, "Share-based Payment," to share-based payments granted after November 7, 2001, that vested the later of (a) the date of the transition and (b) January 1, 2005. The Company has elected to apply this exemption and to apply IFRS 2 only to awards unvested at the July 1, 2010, date of transition. IFRS has not been applied to awards that vested prior to July 1, 2010.

(d) Compound financial instruments

The Company has elected to apply the exemption related to compound financial instruments where the liability component is no longer outstanding at the date of transition to IFRS. IAS 32, "Financial Instruments: Presentation," requires an entity to split a compound financial instrument at inception into its separate liability and equity components. If the liability component is no longer outstanding at the IFRS transition date, a first-time adopter need not separate the impact of compound financial instruments between the respective components of equity.

**18. FIRST TIME ADOPTION OF IFRS (cont'd)**

(e) Leases

The Company has elected to apply the IFRS exemption with respect to leases. This election allows the Company to apply the transitional provisions of IFRIC Interpretation 4, "Determining Whether an Arrangement Contains a Lease," to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date.

(f) Estimates

IFRS 1 requires that an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the entity's previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain areas of recognition, measurement and disclosure. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the Company's reported financial position and results of operations. In order to allow financial statement users to better understand these changes, the Company's Canadian GAAP opening consolidated statement of financial position at July 1, 2010, and condensed consolidated interim statements of financial position at December 31, 2010 and June 30, 2011, and statements of operations, comprehensive income and deficit and cash flows for the three months and six month periods ended December 31, 2010, and the year ended June 30, 2011, have been reconciled to IFRS and presented below, along with explanations of the resulting differences.

(Expressed in U.S. Dollars unless otherwise stated)

## 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of financial position as at July 1, 2010, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $CAD | Effect of IFRS adjustment $CAD | Change in presentation currency $USD (2) | Effect of functional currency adjustment $USD | IFRS $USD |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | | 4,061,379 | - | (215,253) | - | 3,846,126 |
| Other assets | | 19,762 | - | (1,047) | - | 18,715 |
| | | 4,081,141 | - | (216,300) | - | 3,864,841 |
| **Capital Assets** | | 80,046 | - | (4,242) | - | 75,804 |
| **Loans due from related parties** | | 19,598 | - | (1,039) | - | 18,559 |
| **Exploration and evaluation assets** | | 13,209,984 | - | (700,129) | - | 12,509,855 |
| | | 13,309,628 | - | (705,410) | - | 12,604,218 |
| | | **17,390,770** | **-** | **(921,711)** | **-** | **16,469,059** |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Accounts payable | | 99,853 | - | (5,292) | - | 94,561 |
| Accrued liabilities | | 38,917 | - | (2,063) | - | 36,854 |
| Employee benefits | | 36,029 | - | (1,910) | - | 34,119 |
| Warrant liability | (3) | | 1,900,228 | (100,057) | - | 1,800,171 |
| | | 174,799 | 1,900,228 | (109,321) | - | 1,965,705 |
| | | 174,799 | 1,900,228 | (109,321) | - | 1,965,705 |
| **Shareholders' Equity** | | | | | | |
| **Common Shares** | | 18,655,564 | | (988,745) | (299,991) | 17,366,830 |
| **Contributed Surplus** | (3) | 2,809,949 | (932,782) | (99,811) | 434,277 | 2,211,633 |
| **Deficit** | (3) | (4,249,543) | (967,446) | 276,167 | (134,286) | (5,075,109) |
| | | 17,215,970 | (1,900,228) | (812,389) | - | 14,503,354 |
| | | **17,390,770** | **-** | **(921,711)** | **-** | **16,469,059** |

(Expressed in U.S. Dollars unless otherwise stated)

### 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of financial position as at December 31, 2010, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $CAD | Effect of IFRS adjustment $CAD | Change in presentation currency $USD (2) | Effect of functional currency adjustment $USD (1) | IFRS $USD |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | | 14,757,948 | - | (3,394) | - | 14,754,554 |
| Other assets | | 795,355 | - | (183) | - | 795,172 |
| | | 15,553,303 | - | (3,577) | - | 15,549,726 |
| **Capital Assets** | | 321,013 | - | (74) | - | 320,939 |
| **Exploration and evaluation assets** | | 16,536,863 | - | (3,803) | - | 16,533,060 |
| | | 16,857,876 | - | (3,877) | - | 16,853,999 |
| | | **32,411,179** | **-** | **(7,455)** | **-** | **32,403,724** |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Accounts payable | | 451,023 | - | (104) | - | 450,919 |
| Accrued liabilities | | 7,644 | - | (2) | - | 7,642 |
| Employee benefits | | 38,628 | - | (9) | - | 38,619 |
| Warrant liabilities | (3) | - | 1,331,015 | 79 | - | 1,331,093 |
| Loans to related parties | | 680,402 | - | (156) | - | 680,246 |
| | | 1,177,697 | 1,331,015 | (192) | - | 2,508,518 |
| | | **1,177,697** | **1,331,015** | **(192)** | **-** | **2,508,518** |
| **Shareholders' Equity** | | | | | | |
| **Common Shares** | | 32,580,985 | - | (7,494) | (667,867) | 31,905,626 |
| **Contributed Surplus** | (3) | 4,077,470 | (334,887) | (938) | (1,356,142) | 2,385,503 |
| **Accumulated comprehensive income** | | - | - | - | 2,693,161 | 2,693,161 |
| **Deficit** | | (5,424,973) | (996,128) | 1,169 | (669,152) | (7,089,082) |
| | | 31,233,482 | (1,331,015) | (7,263) | - | 29,895,207 |
| | | **32,411,179** | **-** | **(7,455)** | **-** | **32,403,724** |

(Expressed in U.S. Dollars unless otherwise stated)

### 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of operations, comprehensive income and deficit for the three months ended December 31, 2010, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $CAD | Effect of IFRS adjustment $CAD | Change in presentation currency $USD (2) | Effect of functional currency adjustment $USD (1) | IFRS $USD |
|---|---|---|---|---|---|---|
| **Expenses** | | | | | | |
| Amortization | | 1,719 | - | (23) | - | 1,696 |
| Investor relations | | 22,621 | - | (301) | - | 22,320 |
| Insurance | | 6,002 | - | (80) | - | 5,922 |
| Legal fees* | | 192,533 | - | (2,561) | - | 189,972 |
| Office and administration | | 25,622 | - | (341) | - | 25,281 |
| Professional fees | | 67,612 | - | (899) | - | 66,713 |
| Rent and utilities | | 19,086 | - | (254) | - | 18,832 |
| Salaries and wages | | 304,670 | - | (4,052) | - | 300,618 |
| Travel and accommodation | | 47,578 | - | (633) | - | 46,945 |
| Transfer agent and filing fees | | 49,152 | - | (654) | - | 48,498 |
| Warrant liabilities adjustment | (3) | - | (152,880) | 2,033 | - | (150,847) |
| **Operating loss** | | **(736,595)** | **152,880** | **7,763** | **-** | **(575,951)** |
| Interest income | | 53,459 | - | (711) | - | 52,748 |
| Other income | | - | - | - | - | - |
| Foreign exchange loss (gain) | | 130,769 | - | (1,081) | - | 129,688 |
| **Loss before taxes** | | **(552,367)** | **152,880** | **5,971** | **-** | **(393,515)** |
| **Income tax expense** | | **-** | **-** | **-** | **-** | **-** |
| **Net loss for the year** | | **(552,367)** | **152,880** | **5,971** | **-** | **(393,515)** |
| **Other comprehensive income for the period** | | **-** | **-** | **-** | **1,076,361** | **1,076,361** |
| **Comprehensive (loss) income for the period** | | **(552,367)** | **152,880** | **5,971** | **1,076,361** | **682,846** |
| **Deficit, beginning of period** | | **(4,872,606)** | **(1,149,008)** | **64,806** | **(738,758)** | **(6,695,567)** |
| **Deficit, end of period** | | **(5,424,973)** | **(996,128)** | **70,777** | **(738,758)** | **(7,089,082)** |
| **Basic and diluted loss per share** | | (0.005) | | | | (0.003) |

*Legal fees incurred in relation to the October 2010 capital raising were subsequently capitalized.

(Expressed in U.S. Dollars unless otherwise stated)

## 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of operations, comprehensive income and deficit for the six months ended December 31, 2010, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $CAD | Effect of IFRS adjustment $CAD | Change in presentation currency $USD (2) | Effect of functional currency adjustment $USD (1) | IFRS $USD |
|---|---|---|---|---|---|---|
| **Expenses** | | | | | | |
| Amortization | | 5,245 | - | (135) | - | 5,110 |
| Investor relations | | 41,290 | - | (1,065) | - | 40,225 |
| Insurance | | 11,362 | - | (293) | - | 11,069 |
| Legal fees* | | 243,228 | - | (6,275) | - | 236,953 |
| Office and administration | | 94,501 | - | (2,438) | - | 92,063 |
| Professional fees | | 113,072 | - | (2,917) | - | 110,155 |
| Rent and utilities | | 44,661 | - | (1,152) | - | 43,509 |
| Salaries and wages | | 636,146 | - | (16,413) | - | 619,733 |
| Travel and accommodation | | 92,775 | - | (2,394) | - | 90,381 |
| Transfer agent and filing fees | | 76,420 | - | (1,972) | - | 74,448 |
| Warrant liabilities adjustment | (3) | - | 893,154 | (23,043) | - | 870,110 |
| **Operating loss** | | **(1,358,700)** | **(893,154)** | **58,098** | **-** | **(2,193,756)** |
| Interest income | | 94,550 | - | (1,258) | - | 93,292 |
| Other income | | 4,765 | - | (63) | - | 4,702 |
| Foreign exchange loss (gain) | | 83,955 | - | (2,166) | - | 81,789 |
| **Loss before taxes** | | **(1,175,430)** | **(893,154)** | **54,611** | **-** | **(2,013,973)** |
| **Income tax expense** | | - | **-** | **-** | **-** | **-** |
| **Net loss for the year** | | **(1,175,430)** | **(893,154)** | **54,611** | **-** | **(2,013,973)** |
| **Other comprehensive income for the period** | | - | **-** | **-** | **2,693,161** | **2,693,161** |
| **Comprehensive (loss) income for the period** | | **(1,175,430)** | **(893,154)** | **54,611** | **2,693,161** | **679,188** |
| **Deficit, beginning of period** | | **(4,249,543)** | **(935,204)** | **109,638** | **-** | **(5,075,109)** |
| **Deficit, end of period** | | **(5,424,973)** | **(1,828,358)** | **164,249** | **-** | **(7,089,082)** |
| **Basic and diluted loss per share** | | (0.011) | | | | (0.018) |

*Legal fees incurred in relation to the October 2010 capital raising were subsequently capitalized.

(Expressed in U.S. Dollars unless otherwise stated)

## 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of cash flows for the three months ended December 31, 2010, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $CAD | Effect of IFRS adjustment $CAD | Change in presentation currency $USD (2) | Effect of functional currency adjustment $USD (1) | IFRS $USD |
|---|---|---|---|---|---|---|
| **Cash provided by (used in):** | | | | | | |
| **Operating activities:** | | | | | | |
| Net loss for the period | | (552,367) | 152,880 | 5,971 | - | (393,515) |
| *Adjustments for non-cash items:* | | | | | | |
| Amortization | | 1,719 | - | (23) | - | 1,696 |
| Foreign exchange adjustment | | (130,769) | - | 1,081 | - | (129,688) |
| Warrant liabilities adjustment | (3) | - | (152,880) | 2,033 | - | (150,847) |
| *Changes in non-cash working capital items:* | | | | | | |
| Other assets | | (121,333) | - | 1,614 | - | (119,719) |
| Accounts payable | | 442,619 | - | (5,887) | - | 436,732 |
| Accrued liabilities | | (289,380) | - | 3,849 | - | (285,531) |
| | | (649,511) | - | 8,638 | - | (640,872) |
| **Investing activities:** | | | | | | |
| Exploration and evaluation assets | | (1,033,645) | - | 13,747 | - | (1,019,898) |
| Purchase of capital assets | | (246,129) | - | 3,274 | - | (242,855) |
| | | (1,279,774) | - | 17,021 | - | (1,262,753) |
| **Financing activities:** | | | | | | |
| Repayments from related parties | | - | - | - | - | - |
| Warrants and options exercised | | 117,000 | - | (1,556) | 11,600 | 127,044 |
| Issuance of common shares | | 14,231,433 | | (189,278) | 791,436 | 14,833,591 |
| Cost of share issuance | | (1,007,050) | | 13,394 | (80,929) | (1,074,585) |
| | | 13,341,383 | | (177,440) | 722,108 | 13,886,050 |
| **Increase / (Decrease) in cash and cash equivalents** | | **11,412,098** | **-** | **(151,781)** | **722,108** | **11,982,426** |
| Cash and cash equivalents, beginning of year | | 3,345,850 | - | (95,357) | - | 3,250,493 |
| Effect of exchange rate on cash and cash equivalents | | - | - | (478,365) | - | (478,365) |
| **Cash and cash equivalents, end of period** | | **14,757,948** | **-** | **(725,503)** | **722,108** | **14,754,554** |

(Expressed in U.S. Dollars unless otherwise stated)

### 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of cash flows for the six months ended December 31, 2010, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $CAD | Effect of IFRS adjustment $CAD | Change in presentation currency $USD (2) | Effect of functional currency adjustment $USD (1) | IFRS $USD |
|---|---|---|---|---|---|---|
| **Cash provided by (used in):** | | | | | | |
| **Operating activities:** | | | | | | |
| Net loss for the period | | (1,175,430) | (893,154) | 54,611 | - | (2,013,973) |
| *Adjustments for non-cash items:* | | | | | | |
| Amortization | | 5,245 | - | (135) | - | 5,110 |
| Foreign exchange adjustment | | (83,955) | - | 2,166 | - | (81,789) |
| Warrant liabilities adjustment | (3) | - | 893,154 | (23,043) | - | 870,110 |
| *Changes in non-cash working capital items:* | | | | | | |
| Other assets | | (39,897) | - | 1,030 | - | (38,867) |
| Accounts payable | | 351,170 | - | (9,060) | - | 342,110 |
| Accrued liabilities | | (28,673) | - | 740 | - | (27,933) |
| | | (971,540) | - | 26,307 | - | (945,233) |
| **Investing activities:** | | | | | | |
| Exploration and evaluation assets | | (2,030,697) | - | 52,392 | - | (1,978,305) |
| Purchase of capital assets | | (246,213) | - | 6,352 | - | (239,861) |
| | | (2,276,910) | - | 58,744 | - | (2,218,166) |
| **Financing activities:** | | | | | | |
| Repayments from related parties | | 19,598 | - | (506) | - | 19,092 |
| Warrants and options exercised | | 701,038 | - | (18,087) | 96,838 | 779,789 |
| Issuance of common shares | | 14,231,433 | | (189,278) | 791,436 | 14,833,591 |
| Cost of share issuance | | (1,007,050) | | 13,394 | (80,929) | (1,074,585) |
| | | 13,945,019 | - | (194,477) | 807,346 | 14,557,888 |
| **Increase / (Decrease) in cash and cash equivalents** | | **10,696,569** | **-** | **(109,425)** | **807,346** | **11,394,490** |
| Cash and cash equivalents, beginning of year | | 4,061,379 | - | (215,253) | - | 3,846,126 |
| Effect of exchange rate on cash and cash equivalents | | - | - | (486,062) | - | (486,062) |
| **Cash and cash equivalents, end of period** | | **14,757,948** | **-** | **(810,740)** | **807,346** | **14,754,554** |

(Expressed in U.S. Dollars unless otherwise stated)

## 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of financial position as at June 30, 2011, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $USD | Effect of IFRS adjustment $USD | IFRS $USD |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | 16,456,189 | - | 16,456,189 |
| Other assets | | 107,949 | - | 107,949 |
| | | 16,564,138 | - | 16,564,138 |
| **Capital Assets** | | 694,009 | - | 694,009 |
| **Exploration and evaluation assets** | | 20,190,101 | - | 20,190,101 |
| | | 20,884,110 | - | 20,884,110 |
| | | **37,448,248** | **-** | **37,448,248** |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable | | 345,492 | - | 345,492 |
| Accrued liabilities | | 48,294 | - | 48,294 |
| Employee benefits | | 67,540 | - | 67,540 |
| Warrant liabilities | (3) | - | 231,906 | 231,906 |
| | | 461,326 | 231,906 | 693,232 |
| | | 461,326 | 231,906 | 693,232 |
| **Shareholders' Equity** | | | | |
| **Common Shares** | | 38,285,976 | | 38,285,976 |
| **Contributed Surplus** | (3) | 4,147,242 | (1,321,136) | 2,826,106 |
| **Accumulated comprehensive income** | (3) | 2,145,569 | 2,012,282 | 4,157,851 |
| **Deficit** | (3) | (7,591,865) | (923,052) | (8,514,917) |
| **Accumulated other comprehensive income and deficit** | | (5,446,296) | 1,089,230 | (4,357,066) |
| | | 36,986,922 | (231,906) | 36,755,016 |
| | | **37,448,248** | **-** | **37,448,248** |

(Expressed in U.S. Dollars unless otherwise stated)

## 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of operations, comprehensive income and deficit for the year ended June 30, 2011, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $USD | Effect of IFRS adjustment $USD | IFRS $USD |
|---|---|---|---|---|
| **Expenses** | | | | |
| Amortization | | 18,661 | - | 18,661 |
| Investor relations | | 72,054 | - | 72,054 |
| Insurance | | 48,486 | - | 48,486 |
| Legal fees | | 60,689 | - | 60,689 |
| Office and administration | | 128,951 | - | 128,951 |
| Professional fees | | 560,966 | - | 560,966 |
| Rent and utilities | | 77,523 | - | 77,523 |
| Salaries and wages | | 1,172,332 | - | 1,172,332 |
| Travel and accommodation | | 142,354 | - | 142,354 |
| Transfer agent and filing fees | | 101,261 | - | 101,261 |
| Write off of Chilean VAT tax receivable | | 828,954 | - | 828,954 |
| Warrant liabilities adjustment | (3) | - | (109,594) | (109,594) |
| Stock based compensation | | 614,472 | - | 614,472 |
| **Operating loss** | | (3,826,703) | 109,594 | (3,717,110) |
| Interest income | | 665,429 | - | 665,429 |
| Other income | | 4,747 | - | 4,747 |
| Foreign exchange loss (gain) | | (392,874) | - | (392,874) |
| **Loss before taxes** | | **(3,549,401)** | **109,594** | **(3,439,808)** |
| **Income tax expense** | | **-** | **-** | **-** |
| **Net loss for the year** | | **(3,549,401)** | **109,594** | **(3,439,808)** |
| Cumulative translation adjustment | | 2,582,283 | 1,575,568 | 4,157,851 |
| **Other comprehensive income for the year** | | **2,582,283** | **1,575,568** | **4,157,851** |
| **Comprehensive (loss) income for the year** | | **(967,118)** | **1,685,161** | **718,043** |
| **Deficit, beginning of year** | | **(4,042,464)** | **(1,032,645)** | **(5,075,109)** |
| **Deficit, end of year** | | **(7,591,865)** | **(923,052)** | **(8,514,917)** |
| **Basic and diluted loss per share** | | (0.028) | (0.002) | (0.030) |

(Expressed in U.S. Dollars unless otherwise stated)

### 18. FIRST TIME ADOPTION OF IFRS (cont'd)

The Company's Canadian GAAP consolidated statement of cash flows for the year ended June 30, 2011, has been reconciled to IFRS as follows:

| | Note | Canadian GAAP $USD | Effect of IFRS adjustment $USD | IFRS $USD |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **Operating activities:** | | | | |
| Net loss for the period | | (3,549,401) | 109,594 | (3,439,808) |
| *Adjustments for non-cash items:* | | | | |
| Amortization | | 18,661 | - | 18,661 |
| Foreign exchange adjustment | | 392,874 | - | 392,874 |
| Stock based compensation | | 614,472 | - | 614,472 |
| Warrant liabilities adjustment | (3) | - | (109,594) | (109,594) |
| Write off of Chilean VAT tax receivable | | 828,952 | - | 828,952 |
| Accrued interest | | (33,036) | - | (33,036) |
| *Changes in non-cash working capital items:* | | | | |
| Other assets | | (56,063) | - | (56,063) |
| Accounts payable | | 250,253 | - | 250,253 |
| Accrued and other liabilities | | 44,351 | - | 44,351 |
| | | (1,488,937) | - | (1,488,937) |
| **Investing activities:** | | | | |
| Exploration and evaluation assets | | (5,965,977) | - | (5,965,977) |
| Purchase of capital assets | | (636,323) | - | (636,323) |
| | | (6,602,300) | - | (6,602,300) |
| **Financing activities:** | | | | |
| Repayments from related parties | | 18,693 | - | 18,693 |
| Warrants and options exercised | | 779,789 | - | 779,789 |
| Issuance of common shares | | 21,147,080 | - | 21,147,080 |
| Costs of share issuance | | (1,742,817) | - | (1,742,817) |
| | | 20,202,745 | - | 20,202,745 |
| **Increase in cash and cash equivalents** | | **12,111,508** | **-** | **12,111,508** |
| Cash and cash equivalents, beginning of year | | 3,873,703 | - | 3,873,703 |
| Effect of exchange rate on cash and cash equivalents | | 470,978 | - | 470,978 |
| **Cash and cash equivalents, end of period** | | **16,456,189** | **-** | **16,456,189** |

## 18. FIRST TIME ADOPTION OF IFRS (cont'd)

Explanatory notes to the IFRS reconciliations:

1) Functional Currency

Under Canadian GAAP – An entity is not explicitly required to assess the unit of measure (functional currency) in which it measures its own assets, liabilities, revenues and expenses. Under Canadian GAAP, an entity applies criteria to determine only whether a foreign subsidiary's operation is integrated or self-sustaining, in which case the temporal or current methods of translation respectively, are then applied to the subsidiary's financial statement balances and results of operations. Under Canadian GAAP, the Company prepared its financial statements in CAD and later USD, its Chilean subsidiaries were determined to be integrated foreign operations.

Under IFRS - The functional currency of the reporting entity and each of its foreign operations must be assessed independently giving consideration to the primary economic environment in which each operates. IFRS provides guidance in respect of factors to be considered in determining an entity's functional currency that are similar to those noted in Canadian GAAP, however unlike Canadian GAAP, IFRS distinguishes between primary and secondary factors in making such an assessment. Based on the assessment under IFRS, management has determined that the functional currencies of Southern Hemisphere Mining Ltd and its Australian subsidiaries are AUD as this is the currency of the primary economic environment in which these Companies operate. The Chilean subsidiaries were determined to have an USD functional currency

The respective results of the entities have been translated as per the requirements of IAS 21. Accordingly, the change in functional currency has been reflected in reporting the Company's financial position and results of operations under IFRS.

2) Presentation Currency

Prior to June 30, 2011, the Company presented its financial statements in CAD. Under IFRS, the Company's financial statements are presented in USD. The change in presentation currency results in a cumulative translation adjustment and under IFRS 1, the Company has elected to eliminate the cumulative translation adjustment on the IFRS transition date.

3) Compound Financial Instruments

Under Canadian GAAP – The Company raised equity by issuing units that consisted of common shares and share purchase warrants. The gross proceeds were allocated to common shares and warrants using the relative fair value method.

Under IFRS – IAS 32 requires an entity to split a compound financial instrument at inception into separate liability and equity components. For proceeds received from the issuance of compound equity instruments such as units comprised of common shares and warrants, the Company allocated the proceeds using the residual method whereby the proceeds allocated to the warrants is based on their Black-Scholes fair value with the remaining proceeds allocated to common shares.