

**Southern Hemisphere Mining Limited**  
(An Exploration Stage Company)

**Consolidated Financial Statements**

**For the years ended June 30, 2008 and 2007**

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## AUDITORS' REPORT

To the Shareholders of  
**Southern Hemisphere Mining Limited**  
(An exploration stage company)

We have audited the consolidated balance sheet of Southern Hemisphere Mining Limited as at June 30, 2008 and the consolidated statements of operations and deficit, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2008 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements of the company as at June 30, 2007 and for the year then ended were audited by other auditors who expressed an opinion without reservation in their report dated February 8, 2008.

*Smith Nixon LLP*

Licensed Public Accountants  
Chartered Accountants  
Toronto, Ontario  
October, 31, 2008

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Consolidated Balance Sheets

| As at:                                  | June 30, 2008      | June 30, 2007   |
|---|--------------------|-----------------|
|   | \$                 | \$              |
| <b>Assets</b>                           |                    |                 |
| <b>Current Assets</b>                   |                    |                 |
| Cash and equivalents                    | 1,581,873          | 48,443          |
| Receivables                             | 114,220            | 3,117           |
| Loans due from related parties (Note 7) | 17,758             | 125,648         |
|   | <b>1,713,851</b>   | <b>177,208</b>  |
| <b>Capital Assets (Note 6)</b>          | <b>23,708</b>      | <b>732</b>      |
| <b>Mineral Properties (Note 5)</b>      | <b>4,778,419</b>   | <b>436,462</b>  |
|   | <b>6,515,978</b>   | <b>614,402</b>  |
| <b>Liabilities</b>                      |                    |                 |
| <b>Current Liabilities</b>              |                    |                 |
| Accounts payable                        | 93,448             | -               |
| Accrued Liabilities                     | 56,982             | 12,974          |
| Loans due to related parties (Note 7)   | 13,695             | 12,439          |
|   | <b>164,125</b>     | <b>25,413</b>   |
| <b>Future Income Tax (Note 11)</b>      | <b>496,100</b>     | <b>-</b>        |
|   | <b>660,225</b>     | <b>25,413</b>   |
| <b>Shareholders' equity</b>             |                    |                 |
| <b>Common Shares (Note 8)</b>           | <b>5,979,980</b>   | <b>622,957</b>  |
| <b>Warrants (Note 9)</b>                | <b>776,918</b>     | <b>-</b>        |
| <b>Agent's Options (Note 9)</b>         | <b>38,457</b>      | <b>-</b>        |
| <b>Contributed Surplus</b>              | <b>936,161</b>     | <b>-</b>        |
| <b>Accumulated Deficit</b>              | <b>(1,875,763)</b> | <b>(33,968)</b> |
|   | <b>5,855,753</b>   | <b>588,989</b>  |
|   | <b>6,515,978</b>   | <b>614,402</b>  |

Ability to continue as a going concern (Note 1)

Subsequent events (Note 17)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

signed "Trevor Tennant"  
Trevor Tennant, Director

signed "James Pearson"  
James Pearson, Director

*The accompanying notes are an integral part of these consolidated financial statements.*

**Southern Hemisphere Mining Limited**  
(An exploration stage company)  
**Consolidated Statements of Shareholders' Equity**

|   | Common<br>Shares<br># | Common<br>Shares<br>\$ | Warrants<br>and<br>options<br>\$ | Contributed<br>Surplus<br>\$ | Accumulated<br>Deficit<br>\$ | Shareholders'<br>Equity<br>\$ |
|---|-----------------------|------------------------|----------------------------------|------------------------------|------------------------------|-------------------------------|
| <b>Balance – pre RTO (A)</b>                                    | <b>2,000,000</b>      | <b>262,944</b>         | <b>41,270</b>                    | <b>-</b>                     | <b>(349,211)</b>             | <b>(44,997)</b>               |
| Adjustment on RTO (Note 2)                                      | -                     | (262,944)              | (41,270)                         | -                            | 270,246                      | (33,968)                      |
| Shares issued on RTO  | 19,434,636            | 1,849,825              | -                                | -                            | -                            | 1,849,825                     |
| Shares issued on acquisition of MHS                             | 2,565,364             | 846,570                | -                                | -                            | -                            | 846,570                       |
| Brokered private placement, net of issue costs of \$169,447     | 9,203,187             | 3,511,828              | -                                | -                            | -                            | 3,511,828                     |
| Fair value attributed to warrants on brokered private placement | -                     | (628,544)              | 628,544                          | -                            | -                            | -                             |
| Short form offering, net of issue costs of \$117,979            | 1,712,500             | 567,021                | -                                | -                            | -                            | 567,021                       |
| Fair value attributed to warrants on short-form offering        | -                     | (116,957)              | 116,957                          | -                            | -                            | -                             |
| Share issue costs – agent options                               | -                     | (18,346)               | 18,346                           | -                            | -                            | -                             |
| Share issue costs – agent warrants                              | -                     | (31,417)               | 31,417                           | -                            | -                            | -                             |
| Agent options modified  | -                     | -                      | 20,111                           | -                            | -                            | 20,111                        |
| Stock based compensation – granted                              | -                     | -                      | -                                | 898,770                      | -                            | 898,770                       |
| Stock based compensation – modified                             | -                     | -                      | -                                | 37,391                       | -                            | 37,391                        |
| Net loss during the year  | -                     | -                      | -                                | -                            | (1,796,798)                  | (1,796,798)                   |
| <b>Balance–June 30, 2008</b>                                    | <b>34,915,687</b>     | <b>5,979,980</b>       | <b>815,375</b>                   | <b>936,161</b>               | <b>(1,875,763)</b>           | <b>5,855,753</b>              |

(A) – represents the shareholders' equity of the legal parent prior to the RTO transaction

*The accompanying notes are an integral part of these consolidated financial statements.*

**Southern Hemisphere Mining Limited**  
 (An exploration stage company)  
**Consolidated Statements of Operations and Deficit**

| For the                                    | Year ended<br>June 30, 2008<br>\$ | Year ended<br>June 30, 2007<br>\$ |
|--|-----------------------------------|-----------------------------------|
| <b>Expenses</b>                            |                                   |                                   |
| Amortization                               | 1,979                             | 334                               |
| Corporate finance and finders fees         | 72,715                            | -                                 |
| Investor relations                         | 27,000                            | -                                 |
| Insurance                                  | 9,969                             | -                                 |
| Legal fees                                 | 161,770                           | 4,864                             |
| Office and administration                  | 56,961                            | 7,613                             |
| Professional fees                          | 199,495                           | 10,406                            |
| Rent & utilities                           | 21,381                            | 4,015                             |
| Salaries & wages                           | 211,980                           | -                                 |
| Stock based compensation (Note 10)         | 936,161                           | -                                 |
| Travel and accommodation                   | 148,934                           | 1,755                             |
| Transfer agent & filing fees               | 51,095                            | -                                 |
| <b>Loss before undernoted</b>              | <b>(1,899,440)</b>                | <b>(28,987)</b>                   |
| Interest income                            | 39,021                            | 693                               |
| Foreign exchange gain                      | 22,285                            | -                                 |
| <b>Loss before taxes</b>                   | <b>(1,838,134)</b>                | <b>(28,294)</b>                   |
| Income tax recovery                        | 41,336                            | -                                 |
| <b>Net loss for the year</b>               | <b>(1,796,798)</b>                | <b>(28,294)</b>                   |
| <b>Deficit, beginning of year</b>          | <b>(33,968)</b>                   | <b>(5,674)</b>                    |
| RTO adjustment (Note 2)                    | (44,997)                          | -                                 |
| <b>Deficit, end of year</b>                | <b>(1,875,763)</b>                | <b>(33,968)</b>                   |
| Basic and diluted loss per share (note 11) | (.065)                            | (.004)                            |

*The accompanying notes are an integral part of these consolidated financial statements.*

**Southern Hemisphere Mining Limited**  
 (An exploration stage company)  
**Consolidated Statements of Cash Flows**

| For the  | Year ended<br>June 30, 2008<br>\$ | Year ended<br>June 30, 2007<br>\$ |
|--|-----------------------------------|-----------------------------------|
| <b>Cash provided by (used in):</b>                 |                                   |                                   |
| <b>Operating activities:</b>                       |                                   |                                   |
| Net loss for the year                              | (1,796,798)                       | (28,294)                          |
| Adjustments for non-cash items:                    |                                   |                                   |
| Amortization                                       | 1,979                             | 334                               |
| Foreign exchange adjustment                        | (22,284)                          | -                                 |
| Stock based compensation                           | 936,161                           | -                                 |
| Future income tax recovery                         | (41,336)                          | -                                 |
| Changes in non-cash working capital items:         |                                   |                                   |
| Receivables  | (111,103)                         | 1,596                             |
| Accounts payable                                   | 92,437                            | (169)                             |
| Accrued liabilities                                | 44,008                            | 12,976                            |
|  | <b>(896,936)</b>                  | <b>(13,557)</b>                   |
| <b>Investing activities:</b>                       |                                   |                                   |
| Loans due from related parties                     | (17,550)                          | (97,411)                          |
| Mineral properties                                 | (1,050,392)                       | (202,839)                         |
| Capital assets                                     | (21,757)                          | (1,066)                           |
| Acquisition of subsidiaries                        | (1,785,652)                       | -                                 |
|  | <b>(2,875,351)</b>                | <b>(301,316)</b>                  |
| <b>Financing activities:</b>                       |                                   |                                   |
| Loans due to related parties                       | -                                 | 1,258                             |
| Issuance of common shares                          | 5,593,143                         | 287,416                           |
| Costs of share issuance                            | (287,426)                         | -                                 |
|  | <b>5,305,717</b>                  | <b>288,674</b>                    |
| <b>Increase (Decrease) in cash and equivalents</b> |                                   |                                   |
|  | <b>1,533,430</b>                  | <b>(26,199)</b>                   |
| Cash and equivalents, beginning of year            | 48,443                            | 74,642                            |
| Cash and equivalents, end of year                  | <b>1,581,873</b>                  | <b>48,443</b>                     |

*The accompanying notes are an integral part of these consolidated financial statements.*

# **Southern Hemisphere Mining Limited**

(An exploration stage company)

## **Notes to the Consolidated Financial Statements**

For the years ended June 30, 2008 and 2007

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### **1. NATURE OF BUSINESS**

Southern Hemisphere Mining Limited (the "Company") was created on December 17, 2007 by the reverse takeover ("RTO") by Southern Hemisphere Mining Pty Ltd ("SHM") of Youandi Capital Corp. ("YCC"). YCC was incorporated as Old Bond Capital Corp. ("Old Bond") on December 23, 2005 under the British Columbia Corporations Act and listed on the TSX Venture Exchange. On May 2, 2006, the Company changed its name from Old Bond Capital Corp. to Youandi Capital Corp. YCC was classified as a Capital Pool Company as defined in the TSX Venture Exchange ("the Exchange") Policy 2.4 and, accordingly, had no assets other than cash and no commercial operations. YCC changed its name to Southern Hemisphere Mining Limited on December 17, 2007. SHM was formed December 13, 2005 in Western Australia.

YCC's fiscal year previously ended on July 31. The Company recently changed its fiscal year-end to June 30 to coincide with SHM's fiscal year-end.

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 balance sheet 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 accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

As at June 30, 2008, the Company had no source of operating cash flow, and an accumulated deficit of \$1,875,763. Operations for the year ended June 30, 2008 have been funded from the issuance of capital stock. 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. It is not possible to predict whether these efforts will be successful or whether the Company will attain profitable levels of operation.

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

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#### 2. REVERSE TAKEOVER ACCOUNTING

The RTO was completed on December 17, 2007. Pursuant to the terms of the Share Exchange Agreement, date July 2, 2007, YCC issued 19,434,636 special warrants in exchange for all the outstanding shares of SHM (the "Transaction"). These special warrants were convertible to one common share on the conversion date without any further action on the part of the warrant holder. These special warrants were converted into common shares on April 18, 2008.

In addition, warrants and options to purchase YCC common shares outstanding immediately prior to the RTO were replaced with warrants and options to purchase an equivalent number of common shares of the Company, on economically equivalent terms and conditions. The incremental fair value of the options and warrants has been included in expenses.

The Transaction has been accounted for as an RTO transaction in accordance with guidance provided in Emerging Issues Committee ("EIC") Abstract No. 10. As YCC did not qualify as a business for accounting purposes, the transaction has been accounted for as a capital transaction of SHM. Pursuant to the RTO transaction, these consolidated financial statements for the year ended June 30, 2008 reflect the assets, liabilities and results of operations of SHM prior to the RTO and the consolidated assets, liabilities and results of operations of YCC and SHM subsequent to the RTO. The consolidated financial statements are issued under the name of the legal parent (the Company), but are deemed to be a continuation of the legal subsidiary (SHM). Net loss per share has also been adjusted for the RTO transaction for all periods presented in accordance with the guidance provided in EIC Abstract No. 10.

The costs of the RTO amounted to \$230,257. These costs are included in legal fees and corporate finance fees.

The net assets acquired are as follows:

|   |          |
|---|----------|
| Cash  | 25,537   |
| Less: accrued liabilities                     | (70,534) |
| Charge against deficit upon completion of RTO | (44,997) |

Concurrently, the Company raised gross proceeds of \$3,681,275 in a brokered private placement and \$685,000 in a short form offering of 9,203,187 and 1,712,500 subscription receipts priced at \$0.40. In connection with the RTO, each subscription receipt was exchanged for one unit, each unit consisting of one common share and one half common share purchase warrant exercisable for 24 months at \$0.60 per share. (See note 8)

As a result of the RTO the Company's fiscal year end changed from July 31 to June 30.

## **Southern Hemisphere Mining Limited**

(An exploration stage company)

### **Notes to the Consolidated Financial Statements**

For the years ended June 30, 2008 and 2007

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#### **3. NEW ACCOUNTING POLICIES**

##### **Financial instruments**

Effective July 1, 2007, the Company adopted the recommendations of the following sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook: Section 1530 Comprehensive Income, Section 3251 Equity, Section 3855 Financial Instruments - Recognition and Measurement, and Section 3861 Financial Instruments - Disclosure and Presentation.

These new sections provide standards for classification and measurement of financial instruments.

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.

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 equivalents                     | Held for trading      |
| Receivables                              | Loans and receivables |
| Loans due from related parties           | Loans and receivables |
| Accounts payable and accrued liabilities | Other liabilities     |
| Loans due to related parties             | Other liabilities     |

The Company adopted the new standards retrospectively without restatement. There was no material effect as a result of the adoption of the new policy.

##### **Change in functional currency**

The Company's principal operations are based in Chile, and expenses are denominated in Chilean pesos, Canadian dollars and Australian dollars. Effective December 17, 2007, to coincide with the Transaction, the Company changed its functional currency from Australian dollars to Canadian dollars, as this currency is more appropriate for the Company's investors and other users of the financial statements.

The Canadian dollar is the Company's reporting and functional currency. The accounts of foreign subsidiaries are maintained in the local currency where the subsidiary is incorporated. The Company has determined that SHM and MHS are integrated foreign operations as defined in CICA Handbook Section 1651 and as a result, the Company has used the temporal method to translate the financial statements of these foreign operations into Canadian dollars.

## **Southern Hemisphere Mining Limited**

(An exploration stage company)

### **Notes to the Consolidated Financial Statements**

For the years ended June 30, 2008 and 2007

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#### **3. NEW ACCOUNTING POLICIES (Cont'd)**

Accordingly, monetary assets and liabilities are translated using the exchange rates in effect at the consolidated balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items have been translated using average exchange rates prevailing during the year. Foreign currency gains and losses resulting from the impact of changes in exchange rates on the translation of monetary assets and liabilities into Canadian dollars are reported in the consolidated statements of operations and deficit.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The following outlines the significant accounting policies under which these financial statements have been prepared for the year ended June 30, 2008.

##### **a) Principals of consolidation**

The Company's consolidated financial statements include Southern Hemisphere Mining Limited and its subsidiaries, all of which are wholly owned: SHM Ltd., Mineras Hemisferio Sur ("MHS") and Services E Inversiones Futuro Ltd ("Futuro"). All significant inter-company transactions and balances have been eliminated on consolidation.

##### **b) Basis of presentation**

The consolidated financial statements of the Company have been prepared in accordance with GAAP for annual financial statements. All monetary references expressed in these notes are references to Canadian dollars, except occasional references to Australian dollar or Chilean peso amounts, where the amounts are preceded by AUD or CLP respectively.

##### **c) Cash and equivalents**

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

##### **d) Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenditures during the reporting period. The Company regularly reviews these estimates and assumptions that affect the financial statements as actual results could differ from those estimates.

Significant areas where management judgement is applied include asset valuations, stock-based compensation, and recovery of future income tax assets. In the opinion of management, all adjustments necessary for fair presentation of the results for the periods presented are reflected in these financial statements.

## **Southern Hemisphere Mining Limited**

(An exploration stage company)

### **Notes to the Consolidated Financial Statements**

For the years ended June 30, 2008 and 2007

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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### **e) Income taxes**

Income taxes are calculated using the asset and liability method of accounting. Temporary differences arise from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet. These temporary differences are used to calculate future income tax liabilities or assets.

Future 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 future 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.

##### **f) 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 period, 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.

##### **g) Stock based compensation**

The Company accounts for stock based compensation using the fair value based method. The fair value of stock based compensation is determined by using the Black-Scholes option pricing model. The fair value of stock options is recognized as stock based compensation expense over the option vesting period with an offsetting credit charged to contributed surplus. The applicable contributed surplus is transferred to share capital if and when the stock options are exercised. Any consideration paid on the exercise of stock options is credited to capital stock.

The Company's stock based compensation plan is described in note 10.

##### **h) Other stock based payments**

The Company accounts for other stock-based payments based on the fair value of the equity instruments issued in exchange for the receipt of goods and services from non-employees by using the stock price and other measurement assumptions as at the measurement date or the fair value of the services provided, whichever is considered more reliable.

## **Southern Hemisphere Mining Limited**

(An exploration stage company)

### **Notes to the Consolidated Financial Statements**

For the years ended June 30, 2008 and 2007

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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### **i) Mineral properties**

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. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year. 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, or at least 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 profitable revenues from each property, or from the sale of the relevant property.

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.

##### **j) Long-lived asset impairment**

Long-lived assets, which comprise mineral exploration properties and capital assets, 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.

##### **k) Capital assets**

Capital assets are amortized on the declining balance method at the following rates per annum:

|                   |     |
|-------------------|-----|
| Equipment         | 15% |
| Computer software | 40% |

## **Southern Hemisphere Mining Limited**

(An exploration stage company)

### **Notes to the Consolidated Financial Statements**

For the years ended June 30, 2008 and 2007

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#### **4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

##### **l) Asset retirement 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.

Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory and operating licence requirements and measured at fair value. Fair value is determined based on the net present value of future cash expenditures expected upon reclamation and closure and subsequent annual recognition of an accretion amount on the discounted liability. Reclamation and closure costs are capitalized as mine development costs and amortized over the life of the mine on a unit-of-production basis.

The Company does not currently have any legal obligations relating to the reclamation of its mineral properties.

##### **m) Revenue recognition**

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

##### **n) Recent accounting pronouncements**

The CICA recently issued the following new accounting standards which will become effective for the Company's fiscal year beginning July 1, 2008.

Section 1400 has been amended for new requirements relating to the assessment of an entity's ability to continue as a going concern. The Company has determined that this new standard will have no material impact on the financial statements.

Section 1535, Capital Disclosures, establishes disclosure requirements relating to an entity's objectives, policies and processes for managing capital. Beyond additional disclosure, the adoption of this new pronouncement is not expected to have an effect on the Company's financial position or results of operations.

Sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation will replace Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements on the nature and extent of risks arising from financial instruments and how a company manages those risks. Beyond additional disclosure, the adoption of these new pronouncements is not expected to have an effect on the Company's financial position or results of operations.

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

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#### 5. MINERAL PROPERTIES

##### a) Acquisition of MHS

###### Background of the transaction

The Company is a South American focused resource company. On January 31, 2006, the Company concluded Binding Heads of Agreement (the "Agreement"), an agreement which by the mutual consent of the parties cannot be changed, with Q&H Inversiones y Asesorias Limitada ("Q&H"), Mr. Jorge Igor Collado and Mr. Eduardo Javier Alfonso Valenzuela Arnaiz. In this agreement, Q&H and Messrs. Collado and Valenzuela Arnaiz agreed to incorporate Minera Hemisferio Sur S.C.M. ("MHS"), and transfer to MHS ownership of the exploration mining concessions over the properties now known as the MHS projects, in exchange for the issue to them of the entire issued MHS share capital. The Agreement also recorded the key terms under which Q&H and Messrs. Collado and Valenzuela Arnaiz, as owners of the entire issued MHS share capital, would grant the Company an option to acquire their shares in MHS, upon the acquisition of MHS of the MHS projects. MHS acquired the MHS projects on March 13, 2006 and issued 10,000 common shares to Q&H and Messrs. Collado and Valenzuela Arnaiz.

On June 13, 2006 the Company concluded the MHS Option Agreement to acquire the entire issued share capital from Q&H, Igor Collado and Eduardo Valenzuela. On October 24, 2006 Igor Collado transferred his shares in MHS and on February 14, 2007 ceded and assigned his rights and obligations under the MHS Option Agreement to SGCC (a company controlled by Mr. Collado). On January 15, 2007 Eduardo Valenzuela transferred his shares in MHS and on February 14, 2007, ceded and assigned his rights and obligations under the MHS Option Agreement to Alpes. (A company controlled by Mr. Valenzuela).

MHS is a Chilean registered and incorporated company that owns exploration mining concessions in three tenement areas. These three tenement areas total approximately 177.2 square kilometres of prospective exploration ground covering three mineralized porphyry copper systems. They are all located within the Chile copper belt and in the case of two of the tenements are in close proximity to existing large copper or copper/gold mining operations.

The tenements are made up of three separate packages of exploration mining concessions: namely Las Santas, (previously known as Coiron) which covers 93.4 square kilometres in an area located approximately 110 kilometres north of Santiago; El Arrayan, which covers 66.2 square kilometres, and is located approximately 470 kilometres north of Santiago, and San Jose, which covers 17.6 square kilometres, and is located approximately 390 kilometres south of Santiago. These three tenement packages together collectively constitute the MHS Projects.

The MHS Option Agreement, as amended on June 28, 2007, granted the Company the option to purchase 7,500 MHS Shares ("Option A") and the option to purchase a further 2,500 MHS shares ("Option B"). The entire issued share capital of MHS is 10,000 shares.

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

#### 5. MINERAL PROPERTIES (Cont'd)

SHM has been identified as the acquirer for accounting purposes. The purchase consideration for all of the shares of MHS was \$2,123,748 and has been allocated as follows:

|                            | \$               |
|----------------------------|------------------|
| Cash and cash equivalents  | 2,202            |
| Accounts receivables       | 210              |
| Mineral properties         | 2,680,003        |
| Loan from related party    | (125,648)        |
| Future income taxes        | (433,017)        |
| <b>Net assets acquired</b> | <b>2,123,748</b> |

The mineral property acquisition value has been allocated to the Chilean mineral properties as follows:

|              |                     |
|--------------|---------------------|
| El Arrayan   | \$ 892,172          |
| Las Santas   | 1,668,570           |
| San Jose     | 112,293             |
| Other        | 6,968               |
| <b>Total</b> | <b>\$ 2,680,003</b> |

#### b) Acquisition of Futuro

##### Background of the transaction

On February 19, 2008 the Company announced that it had exercised its option to purchase all the shares in Sociedad Servicios E Inversiones Futuro Limitada, ("Futuro"), a Chilean incorporated company that was previously owned by Sundance Resources Limited of Australia, for the sum of \$595,157 (US\$500,000). The assets of Futuro comprise: (i) Tenements, (ii) Rural property, (iii) A mining plant and (iv) Water easement rights.

- (i) Tenements – a total of 54.55 square kilometres of a combination of granted mining concessions and mining petitions. These tenements are all in good standing.
- (ii) Rural property – the "Las Mollacas" rural property comprises a surface area of 923 hectares.
- (iii) Mining Plant – a standard flotation processing plant capable of processing 200 tonnes per day that has been on care and maintenance since the early 2000's.
- (iv) Water Easement Rights – the plant is legally entitled to use the water running through the rural property.

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

#### 5. MINERAL PROPERTIES (Cont'd)

SHM has been identified as the acquirer for accounting purposes. The purchase for all of the shares of Futuro was \$595,157 and has been allocated as follows:

|                            | \$             |
|----------------------------|----------------|
| Equipment                  | 1,219          |
| Mineral properties         | 729,049        |
| Accrued liabilities        | (1,101)        |
| Loans from related party   | (29,592)       |
| Future income taxes        | (104,418)      |
| <b>Net assets acquired</b> | <b>595,157</b> |

The mineral property acquisition value has been allocated to the Chilean mineral properties as follows:

|                                       |                   |
|---------------------------------------|-------------------|
| Tenements                             | \$ 580,780        |
| Rural property                        | 98,269            |
| Pingo plant and water easement rights | 50,000            |
| <b>Total</b>                          | <b>\$ 729,049</b> |

| Exploration expenditures   | Opening balance<br>July 1, 2007<br>\$ | Additions<br>2008<br>\$ | Closing balance<br>June 30, 2008<br>\$ |
|----------------------------|---------------------------------------|-------------------------|--|
| Acquisition costs – MHS    | ---                                   | 2,680,003               | 2,680,003                              |
| Acquisition costs – FUT    | ---                                   | 729,049                 | 729,049                                |
| Tenement licences          | 322,011                               | ---                     | 322,011                                |
| Due diligence              | 57,169                                | 113,306                 | 170,475                                |
| Geological services        | 14,796                                | 167,518                 | 182,314                                |
| Field and drilling         | ---                                   | 474,685                 | 474,685                                |
| Other exploration expenses | ---                                   | 14,246                  | 14,246                                 |
| Travel expenses            | 42,486                                | 40,983                  | 83,469                                 |
|                            | 436,462                               | 4,219,790               | 4,656,252                              |
| Other:                     |                                       |                         |  |
| Chilean VAT                | ---                                   | 122,167                 | 122,167                                |
| <b>Total</b>               | <b>436,462</b>                        | <b>4,341,957</b>        | <b>4,778,419</b>                       |

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

#### 5. MINERAL PROPERTIES (Cont'd)

| Exploration expenditures | Opening balance<br>July 1, 2006<br>\$ | Additions<br>2007<br>\$ | Closing balance<br>June 30, 2007<br>\$ |
|--------------------------|---------------------------------------|-------------------------|--|
| Acquisition costs        | ---                                   | ---                     | ---                                    |
| Tenement licences        | 233,624                               | 88,387                  | 322,011                                |
| Due diligence            | ---                                   | 57,169                  | 57,169                                 |
| Geological services      | ---                                   | 14,796                  | 14,796                                 |
| Travel expenses          | ---                                   | 42,486                  | 42,486                                 |
|                          | 233,624                               | 202,838                 | 436,462                                |
| Other                    | ---                                   | ---                     | ---                                    |
| <b>Total</b>             | <b>233,624</b>                        | <b>202,838</b>          | <b>436,462</b>                         |

| Project Location | Opening balance<br>July 1, 2007<br>\$ | Additions<br>2008<br>\$ | Closing balance<br>June 30, 2008<br>\$ |
|------------------|---------------------------------------|-------------------------|--|
| El Arrayan       | 163,058                               | 1,145,493               | 1,308,551                              |
| Las Santas       | 230,054                               | 2,212,244               | 2,442,298                              |
| San Jose         | 43,350                                | 122,870                 | 166,220                                |
| Other            | ---                                   | 10,134                  | 10,134                                 |
|                  | 436,462                               | 3,490,741               | 3,927,203                              |
| Futuro projects  | ---                                   | 729,049                 | 729,049                                |
| Chilean VAT      | ---                                   | 122,167                 | 122,167                                |
| <b>Total</b>     | <b>436,462</b>                        | <b>4,141,957</b>        | <b>4,778,419</b>                       |

| Project Location | Opening balance<br>July 1, 2006<br>\$ | Additions<br>2007<br>\$ | Closing balance<br>June 30, 2007<br>\$ |
|------------------|---------------------------------------|-------------------------|--|
| El Arrayan       | 87,279                                | 75,779                  | 163,058                                |
| Las Santas       | 123,140                               | 106,914                 | 230,054                                |
| San Jose         | 23,205                                | 20,145                  | 43,350                                 |
| Other            | ---                                   | ---                     | ---                                    |
|                  | 233,624                               | 202,838                 | 436,462                                |
| Futuro projects  | ---                                   | ---                     | ---                                    |
| Chilean VAT      | ---                                   | ---                     | ---                                    |
| <b>Total</b>     | <b>233,624</b>                        | <b>202,838</b>          | <b>436,462</b>                         |

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

#### 6. CAPITAL ASSETS

|                                  | June 30,<br>2008 | June 30,<br>2007 |
|----------------------------------|------------------|------------------|
| Computer Software at Cost        | \$ 16,217        | \$ 1,065         |
| Equipment at Cost                | 10,770           | -                |
| Accumulated Amortization         | (3,279)          | (333)            |
| Net book Value of Capital Assets | \$ 23,708        | \$ 732           |

#### 7. RELATED PARTY TRANSACTIONS AND BALANCES

At June 30, 2008 the Company had certain arrangements in place to provide administrative, accounting, and management services that the Company requires. These services are in the normal course of business and are measured at the exchange amount, which is the fair value as agreed between management and the related parties.

Loans due from and to related parties are non-interest bearing and have no specified terms of repayment.

The following amounts are expected to be paid within the next year and have been classified as current liabilities in these financial statements.

| Services provided by:   | Year ended<br>June 30, 2008 | Year ended<br>June 30, 2007 |
|---|-----------------------------|-----------------------------|
| Silverbridge Capital Inc. (a)   | \$ 175,462                  | \$ ---                      |
| St George Management Services Ltd (b)   | \$ 54,963                   | \$ ---                      |
| <b>Balances included in accounts<br/>payables and accrued liabilities at June<br/>30, 2008:</b> |                             |                             |
| St George Management Ltd  | \$ 16,018                   | \$ ---                      |
| <b>Amounts due from related parties in<br/>Chile, South America (c)</b>                         | \$ 17,758                   | \$ 125,648                  |
| <b>Due to South American Mining Pty<br/>Limited (d)</b>   | \$ 13,695                   | \$ 12,439                   |

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

#### 7. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

- (a) Fees paid for or accrued to a company controlled by a director, officer and shareholder of the Company. Silverbridge Capital Inc. had a corporate advisory mandate to advise SHM on the conclusion of the Qualifying Transaction with SHM and MHS, and an agency arrangement with the Company to raise the offering proceeds on a commercially reasonable efforts basis. A commission of \$98,825 or 7% was payable to Silverbridge on the gross proceeds of the brokered portion of the financing. In addition, finders fees of \$25,000 and incidental charges of \$51,637 were paid to Silverbridge Capital Inc.
- (b) Fees paid for or accrued to a company controlled by a director and shareholder of the Company. Upon the completion of the Qualifying Transaction the Company entered into an agreement with St George Management Ltd regarding the provision of office accommodation, financial management and investor relations and administrative services.

Silverbridge Capital Inc. and St. George Minerals Ltd are both wholly owned by the Hughnie Laing Trust, the sole beneficiary of which is the spouse of a director.

- (c) Amounts due from related parties in Chile, South America as at June 30, 2008 are as follows:

|   | <u>June 30, 2008</u> | <u>June 30, 2007</u> |
|---|----------------------|----------------------|
| Pan American Mining Pty Ltd. (a company with directors in common) | \$ 17,758            | -                    |
| Minera Hemisferio Sur   | -                    | \$ 125,648           |
| Total   | <u>\$ 17,758</u>     | <u>\$125,648</u>     |

- (d) The loan payable to South American Mining Pty Ltd., a company with directors in common, of \$13,695, bears no interest and is repayable on demand at the discretion of the directors of South American Mining Pty Ltd. (June 30, 2007 \$12,439).

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

#### 8. SHARE CAPITAL

Capital stock activity, including that which was related to the RTO, is detailed as follows:

| <b>SHM Common Shares Issued – unlimited authorized, no par value</b> | <b>Number of Shares<br/>#</b> | <b>Amount<br/>\$</b> |
|--|-------------------------------|----------------------|
| Balance, June 30, 2006   | 1,010,002                     | 335,542              |
| Shares issued pursuant to private placement (a)                      | 325,499                       | 287,416              |
| Balance, June 2007   | 1,335,501                     | 622,957              |
| Shares issued pursuant to private placement (b)                      | 1,389,431                     | 1,226,868            |
| <b>Balance, December 16, 2007, pre RTO</b>                           | <b>2,724,932</b>              | <b>1,849,825</b>     |

| <b>YCC Common Shares Issued – unlimited authorized, no par value</b> | <b>Number of Shares<br/>#</b> | <b>Amount<br/>\$</b> |
|--|-------------------------------|----------------------|
| Balance, July 31, 2006 (c)   | 1,000,000                     | 100,000              |
| Shares issued pursuant to public offering (d)                        | 1,000,000                     | 200,000              |
| Share issue costs – cash (d)   | ---                           | (26,266)             |
| Share issue costs – agent options (d)                                | ---                           | (10,790)             |
| <b>Balance, July 31, 2007 and December 16, 2007</b>                  | <b>2,000,000</b>              | <b>262,944</b>       |

| <b>YCC and SHM – unlimited authorized, no par value</b>           | <b>Number of Shares<br/>#</b> | <b>Amount<br/>\$</b> |
|---|-------------------------------|----------------------|
| Balance, December 17, 2007  | 2,000,000                     | 262,944              |
| Reverse takeover adjustment (note 2)                              | ---                           | (262,944)            |
| Shares issued on RTO (note 2)                                     | 19,434,636                    | 1,849,825            |
| Share issue costs – agent options (e)                             | ---                           | (9,173)              |
| Shares issued on acquisition of MHS (note 5)                      | 2,565,364                     | 846,570              |
| Shares issued pursuant to brokered private placement (f)          | 9,203,187                     | 3,681,275            |
| Fair value of warrants issued with brokered private placement (f) | ---                           | (628,544)            |
| Share issue costs – cash (f)                                      | ---                           | (169,447)            |
| Share issue costs – agent options (g)                             | ---                           | (9,173)              |
| Shares issued pursuant to short-form offering (g)                 | 1,712,500                     | 685,000              |
| Fair value of warrants issued with short-form offering (g)        | ---                           | (116,957)            |
| Share issue costs – cash (g)                                      | ---                           | (117,979)            |
| Share issue costs – agent warrants (g)                            | ---                           | (31,417)             |
| <b>Balance, June 30, 2008</b>                                     | <b>34,915,687</b>             | <b>5,979,980</b>     |

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

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#### 8. SHARE CAPITAL (Cont'd)

- a) During the year ended June 30, 2007, SHM issued 325,499 common shares, at a price of \$0.883 (AUD1.00) per common share, for total proceeds of \$287,416 (AUD325,499).
- b) During the year ended June 30, 2008, SHM issued 1,389,431 common shares, at a price of \$0.883 (AUD1.00) per common share, for total proceeds of \$1,226,868 (AUD1,289,431).
- c) During the year ended July 31, 2006, YCC issued 1,000,000 common shares, at a price of \$0.10 per common share, for total proceeds of \$100,000. As the Company was classified as a Capital Pool Corporation, these shares were held in escrow and could not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities. Under the terms of the escrow agreement, the shares would be released pro-rata to the shareholders as to 10% of the escrow shares upon notice of final acceptance of a Qualifying Transaction by the Exchange and the remainder in six equal tranches of 15% on every six month anniversary thereafter, for a period of 36 months.

On December 17, 2007, the Qualifying Transaction was completed and on April 22, 2008, the 22,000,000 convertible share securities were converted into common shares of the Company. On this date, the restrictions imposed by the TSX, other than those related to the escrow agreement, were lifted.

- d) On November 1, 2006, YCC completed an initial public offering of 1,000,000 common shares at \$0.20 per common share for gross proceeds of \$200,000. Pursuant to an agency agreement with Raymond James Ltd. (the "Agent"), the Agent has received a commission of 10% of the gross proceeds, was reimbursed for its legal fees and expenses of \$6,266 and was granted 100,000 agent's options exercisable at \$0.20 per common share for a period of 24 months from November 3, 2006, when the Company's common shares were listed for trading on the Exchange. In addition, the Agent was paid a corporate finance fee of \$10,000 which has been included in the 2007 expenses.

The fair value of the agent options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: estimated dividend yield of Nil, estimated volatility of 100%, risk free rate of 4%, and an estimated life of 2 years.

- e) On December 17, 2007, pursuant to an agreement with Raymond James Ltd (the "Agent"), Raymond James received 50,000 non-transferrable sponsor's as agent's options ("Agent's Options") exercisable to purchase one share at \$0.40 per share to December 17, 2009.

The fair value of the Agent's Options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: estimated dividend yield of Nil, estimated volatility of 100%, risk free rate of 3%, and an estimated life of 2 years. The fair value of the options was estimated to be \$9,173.

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

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#### 8. SHARE CAPITAL (Cont'd)

- f) On December 17, 2007, the Company completed a brokered private placement of 9,203,187 units at \$0.40 per unit for gross proceeds of \$3,681,275.

Each unit was comprised of one common share and one half one share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at an exercise price of \$0.60 per share. The proceeds have been allocated to common shares (\$3,052,731) and warrants (\$628,544) based on their relative fair values. The fair value of each warrant was estimated on the day of grant using the Black-Scholes option pricing model with the following assumption: estimated life of 2 years, estimated volatility 100%, risk free interest rate of 3%, and estimated dividend yield of Nil.

Pursuant to an agreement with Silverbridge Capital Inc. (the "Agent"), the Company paid a commission of \$98,825. In connection with the brokered private placement, the Company incurred other offering costs of \$70,662.

- g) On December 17, 2007, the Company completed a short form offering of 1,712,500 units at \$0.40 per unit for gross proceeds of \$685,000. Each unit was comprised of one common share and one half one share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at an exercise price of \$0.60 per share. The proceeds have been allocated to common shares (\$568,043) and warrants (\$116,957) based on their relative fair values. The fair value of each warrant was estimated on the day of grant using the Black-Scholes option pricing model with the following assumption: estimated life of 2 years, estimated volatility 100%, risk free interest rate of 3%, and estimated dividend yield of Nil.

Pursuant to an agency agreement with Haywood Securities Ltd. (the "Agent"), the Company paid a commission of \$47,950 and reimbursed \$24,479 in legal fees and expenses. In connection with the Short Form Offering, the Company incurred a corporate finance fee of \$45,550 and granted 171,250 non-transferable agent's warrants ("Agent Warrants") exercisable to purchase one share at \$0.40 per share to December 17, 2009 as well as 50,000 non-transferable agent's corporate finance options ("Agent Corporate Finance Options") exercisable to purchase one share at \$0.40 per share to December 17, 2009.

The fair value attributed to the Agent Warrants and Agent Corporate Finance Options granted under the Black Scholes option-pricing model was \$31,417 and \$9,173 respectively. The following assumptions were used to estimate the value: estimated dividend yield of Nil, estimated volatility of 100%, risk free rate of 3%, and an estimated life of 2 years.

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

#### 9. AGENTS OPTIONS AND WARRANTS ISSUED AS LISTING COSTS

As at June 30, 2008, the following common share purchase warrants and agent options were issued and outstanding:

| Warrants: issued and exercisable   | Warrants         | Weighted Avg Exercise price | Agent warrants | Weighted Avg Exercise price | Agent options  | Weighted Avg Exercise price |
|--|------------------|-----------------------------|----------------|-----------------------------|----------------|-----------------------------|
|  |                  |                             |                |                             |                |                             |
| Balance, June 30, 2006   | -                | \$ -                        | -              | \$ -                        | -              | \$ -                        |
| Issued agent options   | -                | -                           | -              | -                           | 100,000        | 0.20                        |
| Balance, June 30, 2007   | -                | \$ -                        | -              | \$ -                        | 100,000        | \$ 0.20                     |
| Issued warrants pursuant to brokered private placement and short form offering | 5,457,844        | 0.60                        | -              | -                           | -              | -                           |
| Issued agent corporate finance options pursuant to short form offering         | -                | -                           | -              | -                           | 50,000         | 0.40                        |
| Issued agent options on RTO  | -                | -                           | -              | -                           | 50,000         | 0.40                        |
| Issued agent warrants pursuant to brokered private placement                   | -                | -                           | 171,250        | \$ 0.40                     | -              | -                           |
| Balance, June 30, 2006 and June 30, 2008                                       | <b>5,457,844</b> | <b>\$ 0.60</b>              | <b>171,250</b> | <b>\$ 0.40</b>              | <b>200,000</b> | <b>\$ 0.30</b>              |

| Warrants: expiry date | Expiry Date       | Number #  | Exercise Price \$ | Exercisable # | Weighted Avg. Remaining Contractual Life |
|-----------------------|-------------------|-----------|-------------------|---------------|--|
|                       |                   |           |                   |               |  |
| Warrants (a)          | December 17, 2009 | 5,457,844 | 0.60              | 5,457,844     | 2 years                                  |
| Agent warrants (b)    | December 17, 2009 | 171,250   | 0.40              | 171,250       | 2 years                                  |
| Agent options (c)     | November 1, 2008  | 100,000   | 0.20              | 100,000       | 4 months                                 |
| Agent options (d) (e) | December 17, 2009 | 100,000   | 0.40              | 100,000       | 2 years                                  |

- a) 5,457,844 warrants entitling the holder to purchase one common share at \$0.60 per share until December 17, 2009.
- b) 171,250 non-transferrable agent warrants entitling Haywood Securities Inc. to purchase one common share at \$0.40 per shares until December 17, 2009.
- c) 100,000 non-transferrable agent options entitling Raymond James Ltd to purchase one common share at \$0.20 per shares until November 1, 2008.

## **Southern Hemisphere Mining Limited**

(An exploration stage company)

### **Notes to the Consolidated Financial Statements**

For the years ended June 30, 2008 and 2007

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#### **9. AGENTS OPTIONS AND WARRANTS ISSUED AS LISTING COSTS (Cont'd)**

- d) 50,000 non-transferrable agent options entitling Raymond James Ltd to purchase one common share at \$0.40 per shares until December 17, 2009.
- e) 50,000 non-transferrable agent options entitling Haywood Securities Inc. to purchase one common share at \$0.40 per shares until December 17, 2009.

#### **10. STOCK BASED COMPENSATION**

Under the terms of a stock option plan initially approved by shareholders on November 1, 2006, and re-approved on January 25, 2008, 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. The Company records the stock-based compensation expense over the vesting term of the options granted.

During the year ended July 31, 2007 \$ 30,480 had been recorded by YCC as stock based compensation expense and added to Contributed Surplus in the Shareholder's Equity on the Balance Sheet for stock options granted on November 1, 2006, which vested immediately. These options were valued on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility 100%; risk-free interest rate 4% and an expected life of 5 years. The Company had not granted any stock options prior to July 31, 2006.

The fair value of these options was modified on December 17, 2007 to represent the increase in value pursuant to the Transaction. The increase in value has been included in RTO costs.

On January 3, 2008, the Board of Directors granted 3,356,579 stock options to directors, officers and consultants which vested immediately. These options were valued on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility 100%; risk-free interest rate 3.23% and an expected life of 5 years. The fair value of the options was estimated to be \$936,161.

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

#### 10. STOCK BASED COMPENSATION (Cont'd)

##### Options: issued and exercisable

|                         | Number of options | Weighted average exercise price |
|-------------------------|-------------------|---------------------------------|
| Balance – June 30, 2007 | 133,334           | \$ 0.20                         |
| Options granted         | 3,356,579         | 0.40                            |
| Balance – June 30, 2008 | 3,489,913         | \$ 0.39                         |

| Expiry Date      | Number    | Exercise Price | Exercisable | Weighted Avg Remaining Contractual Life |
|------------------|-----------|----------------|-------------|---|
| November 1, 2011 | 133,334   | \$ 0.20        | 133,334     | 3.34 yrs                                |
| January 13, 2013 | 3,356,579 | 0.40           | 3,356,579   | 4.51 yrs                                |

#### 11. INCOME TAXES

|  | June 30, 2008    | June 30, 2007 |
|--|------------------|---------------|
| Net loss for accounting                    | \$ (1,838,134)   | \$ (31,152)   |
| Expected tax rate                          | 33.50%           | 36.12%        |
| Expected tax recovery at statutory rates   | (615,775)        | \$ (11,252)   |
| Stock based compensation                   | 320,351          | ---           |
| Unrecognized benefit of non-capital losses | 260,463          | 9,346         |
| Foreign tax rate differences               | 60,772           | 1,907         |
| Recognized benefit of non-capital losses   | 41,336           | ---           |
| Foreign exchange translation adjustment    | (7,465)          | ---           |
| Share issue costs charged to equity        | (18,346)         | ---           |
| <b>Future income tax recovery</b>          | <b>\$ 41,336</b> | <b>\$ ---</b> |

| Future income tax assets (liability) | June 30, 2008       | June 30, 2007 |
|--------------------------------------|---------------------|---------------|
| Non capital losses carried forward   | \$ 344,700          | \$ 95,500     |
| Foreign tax rate differences         | 3,200               | 3,300         |
| Share issuance costs                 | 100,300             | ---           |
| Mineral properties                   | (496,100)           | ---           |
| Valuation allowance                  | (448,200)           | (98,800)      |
| <b>Balance</b>                       | <b>\$ (496,100)</b> | <b>\$ ---</b> |

## Southern Hemisphere Mining Limited

(An exploration stage company)

### Notes to the Consolidated Financial Statements

For the years ended June 30, 2008 and 2007

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#### 11. INCOME TAXES (Cont'd)

As at June 30, 2008 the Company had available \$243,100 (CLP123,261,000) in Chilean and \$320,200 (AUD329,300) in Australian tax loss carry-forwards that may be carried forward indefinitely. In addition, the Company had available Canadian non-capital losses, which may be deducted in the calculation of taxable income in future years that will expire, if not utilized, as follows:

| Origin | Expiry | Amounts        |
|--------|--------|----------------|
| 2006   | 2026   | \$ 59,100      |
| 2007   | 2027   | 290,100        |
| 2008   | 2028   | 519,300        |
|        |        | <u>868,500</u> |

#### 12. 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 year ended June 30, 2008 was 27,697,959 (June 30, 2007 - 7,774,587) for the purpose of calculating the basic and diluted loss per share. As a result of the net losses for the year ended June 30, 2008 and the year ended June 30, 2007, the exercise of options and warrants has been excluded from the calculation of diluted loss per share given their anti-dilutive nature.

#### 13. ESCROWED SHARES

At June 30, 2008, the Company has the following shares in escrow:

- (1) 1,000,000 common shares issued during the period ended July 31, 2006, when the Company was a Capital Pool Corporation as defined under the policies of the TSX. These shares were subject to a Tier two value escrow arrangement as defined by the policies of the Exchange whereby 10% of the escrowed shares would be released upon issuance of the final notice of acceptance of a Qualifying Transaction by the Exchange, and the remainder in six equal tranches of 15% on every six month anniversary thereof, for a period of 36 months.

As the conversion of the 22,000,000 convertible share securities, issued on completion of the RTO which constituted the Company's Qualifying Transaction, took place on April 18, 2008, the release of the initial 10% of the escrowed former CPC shares was effective April 22, 2008.

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#### 13. ESCROWED SHARES (Cont'd)

- (2) 22,000,000 convertible share securities convertible into common shares of the Company were issued on December 17, 2007, pursuant to a Share Exchange Agreement dated July 2, 2007 and amended September 13, 2007 and November 29, 2007.

These 22,000,000 convertible share securities were subject to a four month hold period, and are subject to a Tier two value escrow arrangement, the terms of which are as described in section (1) above. The 22,000,000 convertible share securities were converted into 22,000,000 common shares of the Company, effective April 18, 2008, and the initial release of 10% of the escrowed shares was effective April 22, 2008.

#### Continuity of Shares in Escrow:

| (1)                              | # of shares       |
|----------------------------------|-------------------|
| Original # of shares             | 1,000,000         |
| Release effective April 22, 2008 | (100,000)         |
| Balance of shares in escrow      | 900,000           |
| (2)                              |                   |
| Original # of shares             | 22,000,000        |
| Release effective April 22, 2008 | (2,200,002)       |
| Balance of shares in escrow      | 19,799,998        |
| <b>Total of escrowed shares</b>  | <b>20,699,998</b> |

#### 14. SEGMENTED INFORMATION

The Company is an exploration stage company engaged in the acquisition and exploration of mineral properties. The Company has one reportable segment operating in three geographical areas as follows:

| Assets:       | June 30, 2008    | June 30, 2007  |
|---------------|------------------|----------------|
|               | \$               | \$             |
| Australia     | 659,712          | 614,402        |
| Chile         | 940,957          | ---            |
| Canada        | 4,915,309        | ---            |
| <b>Total:</b> | <b>6,515,978</b> | <b>614,402</b> |

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For the years ended June 30, 2008 and 2007

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## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair value

The carrying value of cash and 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. The fair value of loans due from/to related parties is not determinable as there are no specified terms of repayment.

### Risk disclosures

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

### Foreign Currency Risk

The Company operates in Canadian and international markets, giving rise to exposure to market risks from changes in foreign exchange rates. As at June 30, 2008, the Company has the following foreign denominated financial instruments which are recorded at the Canadian dollar equivalent and are subject to foreign currency risk:

| Foreign currency risk          | AUD     | CLP        |
|--------------------------------|---------|------------|
| Cash and cash equivalents      | 622,741 | 20,778,000 |
| Receivables                    | 95,000  | -          |
| Loans due from related parties | 18,266  | -          |
| Accounts payable               | 5,577   | -          |
| Loans due to related parties   | 14,087  | -          |

### 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.

### Interest Rate Risk

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.

### Liquidity Risk

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.

### Political and Other Risks

The Company's mineral exploration activities in Chile, South America exposes the Company to different considerations and other risks not typically associated with companies in North America. Such risks are associated with the political, economic and legal environments. The Company's results may be adversely affected by changes in political and social conditions and by changes in government policies with respect to laws and regulations.

## **Southern Hemisphere Mining Limited**

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### **Notes to the Consolidated Financial Statements**

For the years ended June 30, 2008 and 2007

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#### **16. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current period's presentation. The net loss previously reported has not been affected by this reclassification.

#### **17. SUBSEQUENT EVENTS**

- a) On July 4, 2008, 15% or 3,450,000 common shares were released as per the escrow agreement (note 13), leaving a balance of 17,249,998 shares in escrow.
- b) On August 19, 2008, Raymond James Ltd. exercised the 100,000 Agent's options at \$0.20 per option which it had received for the IPO which transacted on November 1, 2006 (note 8 (d)).