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HEMISPHERE RESOURCES LIMITED

ABN 96 122 074 006

ANNUAL FINANCIAL REPORT

FOR THE PERIOD ENDED 30 JUNE 2007

HEMISPHERE RESOURCES LIMITED
30 JUNE 2007 ANNUAL FINANCIAL REPORT

DIRECTORS' REPORT

The directors present their report together with the financial report of Hemisphere Resources Limited ("the Company"), for the period ended 30 June 2007 and the auditor's report thereon.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial period are:

Paul Boyatzis – Chairman, Non-executive Director, appointed 6th October 2006, age 52.

B Bus, ASA, MSDIA

Mr Boyatzis has over 25 years experience in the investment and equity markets.

Mr Boyatzis has assisted many listed mining companies to raise funds through the IPO process and through the secondary market. He is also currently chairman of a London based electronic financial services company and was instrumental in assisting that company to raise funds from a number of London based fund managers.

Mr Boyatzis is a current member of the Securities and Derivatives Industry Association and a current member of the Certified Practising Accountants of Australia.

Danny Costick – Managing Director, appointed 6th October 2006, age 45.

B.Eng.Msc.

Mr Costick has over 25 years experience in the mining industry. For the last 15 years Mr Costick has been actively involved in a professional capacity in the operation and management of mines throughout Australia and internationally.

Mining operations worked on include the Wannaway nickel mine, Ora Banda gold mine, Agnew Gold operations, Leinster nickel operations, Tennant Creek operations, Mt Lyell copper mine, Gidgee gold mine and Oceana Gold Limited's New Zealand operations.

His experience includes extensive hands on experience in mining, mine design, mine development and production, feasibility studies, project valuation and mine management in a wide range of commodities including gold, base metals and mineral sands.

Mr Costick is a graduate of the Western Australian School of Mines, having completed his Mining Engineering Qualifications in 1991 and his Mineral Economics Masters Degree in 1999. He commenced his mining career on the Golden Mile in Kalgoorlie.

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DIRECTORS' REPORT (continued)

Dr Mark Elliott – Non-Executive Director, appointed 6th October 2006, age 55.

Dip App Geol, PhD FAICD, FAusIMM(CPGeo), FSEG, FAIG

Dr Elliott is a chartered professional geologist with over 32 years experience in the resources industry.

Dr Elliott commenced his exploration career in Broken Hill and Mt Isa as a geologist with Anaconda Australia Inc before founding his own geological consulting firm in the early 1980's. He has extensive experience in managing companies and exploration/mining operations in a wide range of commodities including base metals and gold.

As a founding member of Burdekin Resources NL in 1993 and executive director he was responsible for management of the Company's exploration programmes until 1997. Dr Elliott introduced the McKinnons gold project to Burdekin Resources who developed it into a successful open pit CIP operation. As a founding director of Zirtanium Limited, Dr Elliott acquired two large high grade mineral sand deposits in Victoria. In 2004, Zirtanium merged with Astron Limited, an Australian ASX listed company and the largest producer of zirconium chemicals in China.

Dr Elliott has a Diploma in Applied Geology (1973) from the Ballarat School of Mines, a Doctor of Philosophy Degree (1979) from the University of New South Wales. He is a qualified Company Director having completed the Company Directors course Diploma awarded by the University of Sydney Graduate School of Business in 1996. He is a Fellow of the Australian Institute of Company Directors, Australasian Institute of Mining and Metallurgy, Society of Economic Geologists and the Australian Institute of Geoscientists.

There were no directorships of other listed companies held by directors in the 3 years immediately before the end of the financial period.

Phillip MacLeod – Company Secretary, appointed 6th October 2006

B Bus, CPA

Mr MacLeod has over 18 years commercial experience and has held the position of company secretary with listed public companies since 1995. Mr MacLeod has provided corporate, management and accounting advice to a number of public and private companies involved in the resource, technology, property and healthcare industries.

2. DIRECTORS' MEETINGS

The number of Directors' meetings held and the number of meetings attended by each of the Directors of the Company during their term in office during the financial period is as follows.

Director	Meetings held	Meetings attended
Paul Boyatzis	3	3
Danny Costick	3	3
Mark Elliott	3	3

The Company does not have any committees. Matters usually considered by an audit, remuneration or nomination committee were dealt with by the directors during regular Board meetings.

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DIRECTORS' REPORT (continued)

3. REMUNERATION REPORT

3.1 Principals of compensation (audited)

Remuneration levels for key management personnel and other staff of the Company are competitively set to attract and retain appropriately qualified and experienced personnel. Staff remuneration is reviewed annually.

All non-executive directors receive a fixed directors' fee. The aggregate amount of directors' fees payable by the Company must be presented for approval to the shareholders in general meeting.

The Company has entered into agreement with Mr D Costick, Managing Director which provides for an annual salary of \$175,000 plus statutory on costs. The agreement is on an ongoing basis but can be terminated at such earlier date with 3 months notice from either party. Currently the cash component of remuneration is not dependent on the satisfaction of any performance condition.

3.2 Directors' and senior executives' remuneration (audited)

Details of the nature and amount of each major element of remuneration of each director of the Company and named executives of the Company receiving the highest remuneration are:

		Short-term Salary & fees \$	Post-employment Superannuation benefits \$	Total \$	Proportion of remuneration performance related %
Directors					
<i>Non-executive</i>					
Mr P Boyatzis	2007	16,000	-	16,000	-
Dr M Elliott	2007	10,000	-	10,000	-
<i>Executive</i>					
Mr D Costick	2007	58,332	5,250	63,582	-
Total	2007	84,332	5,250	89,582	-
Executives					
Mr P MacLeod	2007	6,325	-	6,325	-
(Company secretary)					
Total	2007	90,657	5,250	95,907	-

3.3 Options and rights over equity instruments granted as compensation (audited)

No options were granted to directors or senior executives during the financial period. No options have been issued subsequent to the end of the financial period to the date of this report.

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DIRECTORS' REPORT (continued)

4. SHARE OPTIONS

Unissued shares under option

At the date of this report there are 13,790,678 unissued ordinary shares of the Company under option.

Share options lapsed

There were no options which lapsed or expired during the financial period.

Shares issued on exercise of options

No ordinary shares were issued as a result of the exercise of options during the financial period.

5. PRINCIPAL ACTIVITY

The principal activity of the Company during the course of the financial period was mineral exploration in Australia.

6. OPERATING AND FINANCIAL REVIEW

Results of operations

Financial review

The Company made a loss for the period of \$395,317.

The Company was incorporated on 6th October 2006 and subsequently gained admission to listing on the ASX on 20th February 2007.

The Company raised an amount of \$4 million and at 30 June has cash assets of \$3,533,067, a reduction of \$466,933 during the financial period since listing.

On 26 June 2007 the Company announced an Options Entitlement Issue to raise up to \$154,774 through the issue of 15,477,400 options at an issue price of 1 cent per option and an expiry date of 31 March 2010.

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DIRECTORS' REPORT (continued)

7. OPERATING AND FINANCIAL REVIEW (continued)

Operating review

The activities of the Company have concentrated on two exploration programs, Glandore a prospective gold project and Mulgarrie, a prospective nickel project. The Company has also secured six priority exploration licence applications over 600 square kilometres of ground in the Sandstone district of Western Australia, a known uranium district.

For the Glandore gold project, the initial drilling program of 1,100metres confirmed mineralisation to be open at depth and to the north of the Supergene Zone and open down dip and along strike of the South Central Zone. The tenor of mineralisation supports previous drilling results which have demonstrated the high grade nature of the project and extends the previous target area.

For the Mulgarrie nickel project, the geophysical review has been undertaken of all currently known nickel targets on the project. This has presented several good conductors in addition to those presented previously. The geological review of the project supports the nickel potential.

8. DIVIDENDS

No dividends were paid or declared by the Company during the financial period.

9. EVENTS SUBSEQUENT TO REPORTING DATE

On 27 July 2007 the company closed the Options entitlement issue raising the sum of \$137,907 before issue costs through the issue of 13,790,678 options at an issue price of 1 cent per option. The options are exercisable at 20 cents and expire on 31 March 2010.

10. LIKELY DEVELOPMENTS

The Company will continue planning and executing mineral exploration work on its existing projects as well as any new projects which come under review during the financial period.

11. DIRECTORS' INTERESTS

The relevant interest of each director in the shares and options of the Company as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Ordinary shares	Options over ordinary shares
Mr P Boyatzis	4,047,850	2,023,925
Mr D Costick	2,050,600	1,025,300
Dr M Elliott	501,600	250,000

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DIRECTORS' REPORT (continued)

12. ENVIRONMENTAL REGULATIONS

In the course of its normal mining and exploration activities the Company adheres to environmental regulations imposed on it by the various regulatory authorities, particularly those regulations relating to ground disturbance and the protection of rare and endangered flora and fauna. The Company has complied with all material environmental requirements up to the date of this report. The board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of these environmental requirements as they apply to the Company.

13. INDEMNIFICATION OF OFFICERS AND AUDITORS

The Company has entered into Director and Officer Protection Deeds (Deed) with each Director and the Company Secretary (officers). Under the Deed, the Company indemnifies the officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed.

Also pursuant to the Deed, the Company must insure the officers against liability and provide access to all board papers relevant to defending any claim brought against the officers in their capacity as officers of the Company.

The Company has paid insurance premiums during the year in respect of liability for any past, present or future directors, secretary, officers and employees of the Company or related body corporate. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover and the amount of the premium is subject to a confidentiality clause under the insurance policy.

The Company has not provided any insurance or indemnification for the Auditor of the Company.

14. NON-AUDIT SERVICES

During the period Ord Partners, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the period by the auditor and has resolved that it is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and does not compromise, the auditor independence requirements of the *Corporation Act 2001*. The non-audit services provided did not undermine the general principles relating to auditor independence as set out in APES110 (*Code of ethics for professional accountants*), as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, Ord Partners, and its related practices for audit and non-audit services provided during the period are set out below:

Audit of financial reports	\$9,000
Investigating Accountants Report for inclusion in prospectus	\$5,265
	<u>\$14,265</u>

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30 JUNE 2007 ANNUAL FINANCIAL REPORT

DIRECTORS' REPORT (continued)

15. AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The auditor's independence declaration as required under section 307c of the *Corporations Act 2001* is set on page 8.

16. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period the Company issued a total of 30,954,800 fully paid ordinary shares. The Company's issued capital increased by \$4,212,391, net of issue costs.

In the opinion of directors, other than that disclosed elsewhere in this report, there were no other significant changes in the state of affairs of the Company that occurred during the period under review.

This report is made with a resolution of the directors:

D Costick
Director

Perth
Dated 27 September 2007

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27 September 2007

To the Board of Directors of Hemisphere Resources Limited

Dear Sirs

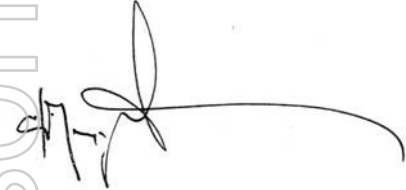
AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2007, there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully

ORD PARTNERS



Ian Macpherson
Partner

Ian K Macpherson CA

Robert W Parker CA

Craig A Vivian CA

Level 2, 47 Colin Street
West Perth WA 6005

PO Box 359
West Perth WA 6872

+61 8 9321 3514

+61 8 9321 3523

ord@ordgroup.com.au

www.ordgroup.com.au



Chartered Accountants

HEMISPHERE RESOURCES LIMITED
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INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2007

	Note	From 6 October 2006 to 30 June 2007
		\$
Revenue from continuing operations		-
Exploration expenditure expensed as incurred		(242,262)
Employee costs		(58,332)
ASX & regulatory expenses		(33,837)
Depreciation		(222)
Directors fees		(26,000)
Insurances		(14,456)
Legal & professional fees		(29,550)
Travel expenses		(25,582)
Occupancy expenses		(3,995)
Other expenses		(35,646)
Loss from operating activities	2	<u>(467,882)</u>
Financial income		72,565
Financial expenses		-
Net financing income	3	<u>72,565</u>
Loss before income tax		(395,317)
Income tax expense	6	-
Loss for the period		<u>(395,317)</u>
Loss per share		
Basic loss per share	5(b)	<u>(2.09) cents</u>

The accompanying notes form part of these financial statements.

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HEMISPHERE RESOURCES LIMITED
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BALANCE SHEET

AS AT 30 JUNE 2007

	Note	2007 \$
Current Assets		
Cash and cash equivalents	7	3,533,067
Trade and other receivables	8	<u>47,284</u>
Total current assets		<u>3,580,351</u>
Non current assets		
Plant & equipment	9	17,387
Deferred exploration expenditure	10	<u>424,945</u>
Total non current assets		<u>442,332</u>
Total assets		<u>4,022,683</u>
Current liabilities		
Trade and other payables	11	181,120
Provisions	12	4,489
Other current liabilities	13	<u>20,000</u>
Total current liabilities		<u>205,609</u>
Total liabilities		<u>205,609</u>
Net assets		<u>3,817,074</u>
Equity		
Issued capital	14	4,212,391
Accumulated losses	15	<u>(395,317)</u>
Total equity		<u>3,817,074</u>

The accompanying notes form part of these financial statements.

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STATEMENT OF CASH FLOW

FOR THE PERIOD ENDED 30 JUNE 2007

	Note	From 6 October 2006 to 30 June 2007
		\$
Cash flows from operating activities		
Interest received		72,565
Cash payments in the course of operations		(153,469)
Net cash used in operating activities	19	<u>(80,904)</u>
Cash flows from investing activities		
Payments for acquisition of mineral exploration projects		(124,945)
Exploration expenditure		(189,454)
Payments for purchase of fixed assets		(5,561)
Net cash used in investing activities		<u>(319,960)</u>
Cash flows from financing activities		
Proceeds from issue of shares		4,118,125
Oversubscription to share issue		20,000
Costs of capital raising		(204,194)
Net cash provided by financing activities		<u>3,933,931</u>
Net increase in cash and cash equivalents		3,533,067
Cash and cash equivalents at incorporation		-
Cash and cash equivalents at 30 June	7	<u>3,533,067</u>

The accompanying notes form part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2007

	Issued capital	Accumulated losses	Total	Total equity
Balance at incorporation	-	-	-	-
Loss for the period		(395,317)	(395,317)	(395,317)
Shares issued	4,418,185		4,418,185	4,418,185
Costs of share issue	(205,794)		(205,794)	(205,794)
Balance at 30 June 2007	4,212,391	(395,317)	3,817,074	3,817,074

The accompanying notes form part of these financial statements.

HEMISPHERE RESOURCES LIMITED

30 JUNE 2007 ANNUAL FINANCIAL REPORT

NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

Hemisphere Resources Limited (the “Company”) is a company domiciled in Australia. The financial report of the Company is for the period ended 30 June 2007.

The Company financial report was authorised for issue by the directors on 27 September 2007.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. International Financial Reporting Standards (“IFRS”) form the bases of Australian Accounting Standards adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS (“AIFRS”), to distinguish from previous Australian GAAP. The financial reports of the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars. All amounts are presented in Australian dollars. The financial report is prepared on the historical cost basis.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Company.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been applied consistently by the Company.

(c) Adoption of New and Revised Accounting Standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Company’s accounting policies nor have affected the amounts reported for the current or prior years.

HEMISPHERE RESOURCES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES continued

(c) Adoption of New and Revised Accounting Standards continued

At the date of authorisation of the financial report, the following Standards and Interpretations were issued but not yet effective:

- | | |
|---|--|
| • AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue | Effective for annual reporting periods beginning on or after 1 January 2007 |
| • AASB 101 'Presentation of Financial Statements' – revised standard | Effective for annual reporting periods beginning on or after 1 January 2007 |
| • Interpretation 10 'Interim Financial Reporting and Impairment' | Effective for annual reporting periods beginning on or after 1 November 2006 |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the Company. The issue of Interpretation 7, Interpretation 8 and Interpretation 9 do not affect the Company's present policies and operations. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect either the company's or the Company's previously reported results and accordingly, there will be no impact to these financial statements on adoption of the Interpretation.

The application of AASB 101 (revised), AASB 7 and AASB 2005-10 will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the company and the Company's financial instruments and the objectives, policies and processes for managing capital.

These Standards and Interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the company's annual reporting period beginning on 1st July 2007.

(d) Critical accounting judgements and key sources of estimation of uncertainty

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report are discussed in note (o).

(e) Basis of consolidation

Joint ventures

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement. The interest of the Company in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

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NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Plant & equipment

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy (f)).

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

(i)	office furniture and equipment	4 to 7 years
(ii)	computer software	2.5 years

The residual value is reassessed annually.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

(h) Impairment

The carrying amounts of the Company's assets, other than deferred tax assets (see accounting policy (j)) and exploration expenditure (see accounting policy (o)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as set out below.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of the Company's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment (continued)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Share capital

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(j) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

(k) Expenses

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and foreign exchange gains and losses. Interest income is recognised in the income statement as it accrues, using the effective interest method.

(l) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

HEMISPHERE RESOURCES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(n) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet statement.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(o) Exploration and evaluation

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Company has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

In the event that an area of interest is abandoned or if the directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the period in which that assessment is made. Each area of interest is reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

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NOTES TO THE FINANCIAL STATEMENTS

**From 6
October 2006
to 30 June 2007**
\$

2. LOSS BEFORE INCOME TAX

Loss before income tax expense has been arrived at after charging the following items

Depreciation of plant & equipment	222
Exploration expenditure	298,594

3. NET FINANCING INCOME

Interest income	<u>72,565</u>
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4. AUDITORS' REMUNERATION

During the period the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

Auditors' remuneration:

Audit and review services:

- Auditors of the Company	<u>9,000</u>
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Corporate services:

- Auditors of the Company	<u>5,265</u>
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5. LOSS PER SHARE

Loss per share calculated using the weighted average number of fully paid ordinary shares on issue at the reporting date

2.09 cents

(a) Weighted average number of shares used in calculation of basic loss per share

18,882,412

(b) Loss used in calculating basic loss per share

\$395,317

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NOTES TO THE FINANCIAL STATEMENTS

		From 6 October 2006 to 30 June 2007 \$	
6.	INCOME TAX		
	(a) Numerical reconciliation of income tax expense to prima facie tax payable:		
	The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:		
	Loss from operations	395,317	
	Income tax expense calculated at 30%	118,595	
	Effect of expenses that are not deductible in determining taxable profit	(13,441)	
	Effect of unused tax losses and tax offsets not recognised as deferred tax assets	<u>(105,154)</u>	
		<u>-</u>	
	(b) Deferred tax balances	Charged to income \$	Carried forward \$
	Deferred tax assets		
	- tax losses	127,484	127,484
	Deferred tax liability	<u>(127,484)</u>	<u>(127,484)</u>
	Net deferred tax liability	<u>-</u>	<u>-</u>
	(c) Unrecognised deferred tax balances		
	The following deferred tax assets have not been brought to account as assets:		
	Tax losses - revenue	116,553	
	Temporary differences	<u>5,802</u>	
		<u>122,355</u>	
7.	CASH AND CASH EQUIVALENTS	2007 \$	
	Cash at bank	<u>3,533,067</u>	
		%	
	(1) Weighted average interest rate.	5.21	
8.	TRADE AND OTHER RECEIVABLES		
	Current		
	GST receivable	26,523	
	Other receivable	<u>20,761</u>	
		<u>47,284</u>	
	Trade and other receivables are non-interest bearing.		

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NOTES TO THE FINANCIAL STATEMENTS

		2007
		\$
9. PLANT & EQUIPMENT		
Computer & office equipment at cost		17,609
Accumulated depreciation		<u>(222)</u>
Net book value		<u><u>17,387</u></u>
The reconciliation of computer and office equipment is as follows:		
Opening carrying value		-
Additions		17,609
Depreciation		<u>(222)</u>
Closing carrying value		<u><u>17,387</u></u>
10 DEFERRED EXPLORATION EXPENDITURE		
Balance at incorporation		-
Acquisition of tenements – <i>at cost</i>		424,945
Exploration expenditure incurred – <i>at cost</i>		<u>-</u>
Balance at end of period		<u><u>424,945</u></u>
The ultimate recoupment of acquisition costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.		
11 TRADE AND OTHER PAYABLES		
Trade creditors and accruals		<u>181,120</u>
All trade creditors and accruals are non-interest bearing.		
12 PROVISIONS		
Balance at incorporation		-
Provision for employee entitlements		<u>4,489</u>
Balance at the end of the period		<u><u>4,489</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

		2007	
		\$	
13 OTHER CURRENT LIABILITIES			
Refundable over subscription of share capital	<u>20,000</u>		
All other current liabilities are non-interest bearing.			
14 ISSUED CAPITAL			
Share capital			
<i>Ordinary shares</i>			
30,954,800 shares fully paid	<u>4,212,391</u>		
<i>Movements during the year</i>			
	Number		\$
Balance at beginning of period	-		
-			
Shares issued			
shares issued for cash at 1.25cents each	4,800		60
shares issued for cash at 1.25cents each	8,850,000		110,625
shares issued for cash at 1.25cents each	600,000		7,500
shares issued for cash at 20cents each	20,000,000		4,000,000
shares issued to acquire exploration projects at 20cents per share	1,500,000		300,000
Transaction costs arising on share issue			<u>(205,794)</u>
Balance at end of period	<u>30,954,800</u>		<u>4,212,391</u>
15 ACCUMULATED LOSSES			
Balance at incorporation	-		
Loss for the period	395,317		
Balance at end of period	<u>395,317</u>		
16 COMMITMENTS			
a) Operating Lease Commitments			
Not later than 1 year	23,400		
Later than 1 year but not later than 5 years	19,500		
Greater than 5 years	-		
	<u>42,900</u>		

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NOTES TO THE FINANCIAL STATEMENTS

		2007
		\$
16.	COMMITMENTS continued	
b)	Exploration Expenditure Commitments	
	Minimum exploration expenditure:	
	not later than 1 year	107,887
	Later than 1 year but not later than 5 years	623,660
	Greater than 5 years	-
		731,547
		731,547

17. **KEY MANAGEMENT PERSONNEL**

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Mr P Boyatzis (Chairman) - appointed 6 October 2006

Dr M Elliott - appointed 6 October 2006

Executive directors

Mr D Costick (Managing Director) – appointed 6 October 2006

Executives

Mr P MacLeod (Company Secretary) – appointed 6 October 2006

The key management personnel compensation for the period is as follows:

	6 October 2006 to 30 June 2007
	\$
Short-term employee benefits	90,657
Post-employment benefits	5,250
	95,907
	95,907

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and executives. Remuneration packages comprise fixed remuneration.

Information regarding individual directors and executives compensation disclosures as permitted by *Corporations Regulations* 2M.3.03 and 2M.6.04 is provided in the remuneration report section 3.1, 3.2, and 3.3 of the Directors' report.

Equity instruments

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares in Hemisphere Resources Limited held, directly, indirectly or beneficially, by each key management person, including their personally-related entities, is as follows:

	Held at 6 October 2006	Purchases on market	Sales	Held at 30 June 2007
Directors				
Mr. P Boyatzis	-	4,047,850	-	4,407,850
Mr. D Costick	-	2,050,600	-	2,050,600
Dr. M Elliott	-	501,600	-	501,600
Executives				
Mr P MacLeod	-	110,000	-	110,000

No shares or options were issued as compensation to key management personnel during the financial period.

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NOTES TO THE FINANCIAL STATEMENTS

18 OTHER RELATED PARTY DISCLOSURE

In January 2007 the Company entered into an agreement with Kirke Securities Limited by which it agreed to pay to Kirke Securities a 1% management fee exclusive of GST on all monies raised under the prospectus.

Kirke Securities were also entitled to 4% commission exclusive of GST on all monies received and accepted by the Company. Kirke Securities received \$75,120 for their services under the agreement. Paul Boyatzis, a director of the Company is a director of Kirke Securities Limited. There is no outstanding balance at the year end.

6 October
2006 to 30
June 2007
 \$

19. NOTES TO STATEMENT OF CASH FLOWS

(a) Reconciliation of loss from ordinary activities after income tax to net cash provided by operating activities:

Loss from ordinary activities after income tax	(395,317)
<i>Adjustments for)</i>	
Depreciation	222
Exploration expenditure	298,594
Add/(less):	
(Increase) in trade and other receivables	(26,522)
Increase in trade and other payables	37,630
Increase in provisions	4,489
	<u>4,489</u>
Net cash used in operating activities	<u>(80,904)</u>

20. NON-CASH TRANSACTIONS:

During the year the Company partly settled two exploration asset acquisitions through the issue of 1,500,000 ordinary shares at an issue price of 20 cents.

21. SEGMENT INFORMATION

The Company operates in one business segment, being mining and exploration. The Company is operating in one geographical segment being Australia.

22. CONTINGENT LIABILITIES

Under the Glandore project mineral rights agreement the Company has provided a covenant to pay the sum of \$50,000 to AngloGold Ashanti Australia Pty Ltd and Marie Epis upon submitting a notice of intent to mine in respect of the tenements.

In the opinion of the directors, other than the matter disclosed above, there were no contingent liabilities at the date of this report.

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NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS DISCLOSURES

(a) Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate is set out in the table below:

2007	Average Interest Rate %	Variable Interest Rate \$	Fixed Interest Rate Maturity Less than 1 Year \$	Fixed Interest Rate Maturity 1-5 Years \$	Non Interest Bearing \$	Total \$
Financial Assets						
Cash and cash equivalents	5.21	3,533,067	-	-	-	3,533,067
Trade and other receivables	-	-	-	-	47,284	47,284
		3,533,067	-	-	47,284	3,580,351
Financial Liabilities						
Trade and other payables	-		-	-	181,120	181,120
Net financial assets		3,533,067	-	-	(133,836)	3,399,231

2007
\$

Reconciliation of net financial assets to net assets

Financial assets	3,399,231
Plant and equipment	17,387
Deferred exploration expenditure	424,945
Provisions and other liabilities	(24,489)
	3,817,074

(b) Credit risk exposures

The credit risk on financial assets of the Company which have been recognised on the balance sheet is the carrying amount. The Company is not materially exposed to any individual overseas country or individual debtor.

(c) Net fair values of financial assets and liabilities

The carrying value of financial assets and financial liabilities recorded in the Company and financial statements represents their respective fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

Cash assets are readily traded on organised markets in a standardised form.

Receivables and payables with a remaining life of less than one year are deemed to reflect the fair value.

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NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS DISCLOSURES continued

(d) Derivatives

The Company does not have any derivatives.

(e) Financial risk management

The Company activities expose it to a variety of financial risks. These include market risk, liquidity risk and cash flow and fair value interest rate risk. Risk management is carried out by the Board of Directors.

(i) Market Risk

The exploration industry is subject to commodity price variances. The Directors monitor commodity prices to ensure that exploration is targeted on commercially viable areas.

(ii) Liquidity Risk

The Company monitors its cash reserves to ensure that it has sufficient cash reserves for its ongoing activities, including exploration.

(iii) Cash Flow and Fair Value Interest Rate Risk

The Company has significant interest bearing assets. However its income and operating expenditure are not materially exposed to changes in market interest rates.

24. EVENTS SUBSEQUENT TO BALANCE DATE

On 27 July 2007 the Company closed the Options entitlement issue raising the sum of \$137,907 before issue costs through the issue of 13,790,678 options at an issue price of 1 cent per option. The options are exercisable at 20 cents and expire on 31 March 2010.

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DIRECTORS' DECLARATION

1. In the opinion of the directors of Hemisphere Resources Limited ("the Company"):
- a) the financial statements and notes, set out on pages 9 to 25 and the remuneration disclosures that are contained in sections 3.1, 3.2, and 3.3 of the remuneration report in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2007 and of their performance, as represented by the results of their operations and their cash flows, for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b) the remuneration disclosures that are contained in sections 3.1., 3.2, and 3.3 of the remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related party Disclosures*.
 - c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2007 pursuant to Section 295A of the *Corporation Act 2001*.

Signed in accordance with a resolution of the directors:

D Costick
Director

Perth

Dated 27 September 2007

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
HEMISPHERE RESOURCES LIMITED**

O | R | D

PARTNERS

CHARTERED ACCOUNTANTS

We have audited the accompanying financial report of Hemisphere Resources Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in page 3 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosure contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ian K Macpherson CA

Robert W Parker CA

Craig A Vivian CA

**Level 2, 47 Colin Street
West Perth WA 6005**

**PO Box 359
West Perth WA 6872**

+61 8 9321 3514

+61 8 9321 3523

ord@ordgroup.com.au

www.ordgroup.com.au



Chartered Accountants

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Hemisphere Resources Limited on 27 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion on the financial report

In our opinion:

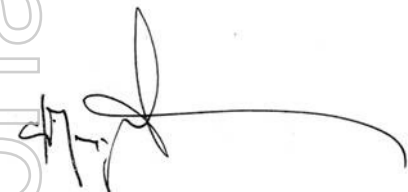
- (a) the financial report of Hemisphere Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in page 3 of the directors' report comply with Accounting Standard AASB 124.

ORD PARTNERS

Chartered Accountants



Ian Macpherson
Partner

Perth, 27 September 2007