

# **Northland Resources S.A.**

**Consolidated financial statements  
For year ended December 31, 2011 with comparative  
figures for 11 months December 31, 2010 and year  
ended January 31, 2010**

7A, rue Robert Stümper

L-2557 Luxembourg

**R.C.S. Luxembourg: B 151 150**

*Subscribed capital: CAD 22,662,890 (USD 21,591,968)*

# Northland Resources S.A.

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## Independent auditor's report

To the Shareholders of  
Northland Resources S.A.  
7A, rue Robert Stümper  
L-2557 Luxembourg

### Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated 18 May 2011, we have audited the accompanying consolidated financial statements of Northland Resources S.A., which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Board of Directors' responsibility for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Responsibility of the "réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Northland Resources S.A. as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

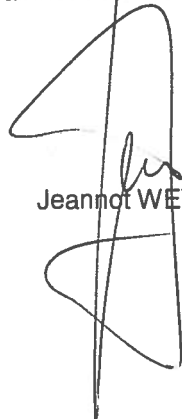
*Emphasis of matter*

Without qualifying our opinion, we draw your attention to Note 2 to the accompanying consolidated financial statements which indicates that the Company encounters treasury problems. These conditions indicate the existence of material uncertainties which may impact the Company's ability to continue as a going concern if management is not able to finalise the completion of its re-financing as described in Note 2 of the consolidated financial statements.

**Report on other legal and regulatory requirements**

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

ERNST & YOUNG  
Société Anonyme  
Cabinet de révision agréé



Jeannot WEYER

Luxembourg, 8 February 2012

# Northland Resources S.A.

## Consolidated statement of comprehensive income

	Notes	12 months ended December 31, 2011	11 months ended December 31, 2010	12 months ended January 31, 2010
		USD´000	USD´000	USD´000
Marketing expenses		(752)	(331)	(283)
General and administrative expenses	7	(16,892)	(14,012)	(10,288)
Other operating expenses	10.11	(10,540)	(4,691)	(1,384)
Other income		92	62	-
<b>Operating loss</b>		<b>(28,092)</b>	<b>(18,972)</b>	<b>(11,955)</b>
Finance income		2,305	389	802
Finance costs		(11,880)	(3,743)	(3,880)
<b>Finance costs - net</b>	8	<b>(9,575)</b>	<b>(3,354)</b>	<b>(3,078)</b>
<b>Loss before tax</b>		<b>(37,667)</b>	<b>(22,325)</b>	<b>(15,033)</b>
Income tax expense	9	(402)	(29)	-
Deferred tax income		-	1,108	-
<b>Loss for the year / period</b>		<b>(38,069)</b>	<b>(21,246)</b>	<b>(15,033)</b>
<b>Other comprehensive income</b>				
Change in fair value of available-for-sale assets		13	-	-
Foreign currency translation		(8,498)	13,457	21,605
<b>Total comprehensive income / (loss) for the year / period, net of tax</b>		<b>(46,554)</b>	<b>(7,789)</b>	<b>6,572</b>
<b>Loss per share:</b>				
Basic and diluted loss for the year/ period attributable to the equity (USD)	18	(0.17)	(0.18)	(0.14)

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

# Northland Resources S.A.

## Consolidated statement of financial position

	Notes	At December 31, 2011	At December 31, 2010	At January 31, 2010
		USD '000	USD '000	USD '000
<b>Assets</b>				
<b>Non-current assets</b>				
Exploration and evaluation assets	10	64,165	45,703	94,241
Mines under construction	11	236,794	74,950	-
Property, plant and equipment	12	9,345	4,135	3,991
Intangible assets		1,241	918	262
Financial assets	13	27,632	1,751	-
<b>Total non-current assets</b>		<b>339,177</b>	<b>127,457</b>	<b>98,494</b>
<b>Current assets</b>				
Accounts receivable	14	17,291	2,891	1,185
Other current assets		23,979	2,692	518
Cash and cash equivalents	15	38,324	251,435	52,011
<b>Total current assets</b>		<b>79,594</b>	<b>257,018</b>	<b>53,713</b>
<b>Assets of disposal group classified as held for sale</b>	23	-	7,711	-
<b>Total assets</b>		<b>418,771</b>	<b>392,186</b>	<b>152,207</b>
<b>Equity and liabilities</b>				
<b>Shareholders' equity</b>				
Share capital	16	21,592	21,369	166,659
Share premium	16	388,576	385,041	-
Reserves	16 & 17	29,452	35,547	19,388
Cumulative losses		(99,907)	(61,838)	(40,592)
<b>Total equity</b>		<b>339,713</b>	<b>380,119</b>	<b>145,455</b>
<b>Non-current liabilities</b>				
Borrowings	20	4,302	-	-
Deferred tax liabilities	9	-	-	1,035
Provisions		327	81	-
<b>Total non-current liabilities</b>		<b>4,629</b>	<b>81</b>	<b>1,035</b>
<b>Current liabilities</b>				
Trade and other payables	21	74,008	11,909	5,717
Income tax liability		421	45	-
<b>Total current liabilities</b>		<b>74,429</b>	<b>11,954</b>	<b>5,717</b>
<b>Liabilities directly associated with the assets classified as held for sale</b>	23	-	32	-
<b>Total equity and liabilities</b>		<b>418,771</b>	<b>392,186</b>	<b>152,207</b>

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

# Northland Resources S.A.

## Consolidated statement of changes in equity

Attributable to the owners of Northland Resources S.A.									
Notes	Share capital			Reserves				Cumulative losses	Total equity
	Number of shares	Issued and fully paid	Share premium	Share option reserve	Foreign currency translation	Fair value reserve	Other reserves		
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
<b>Balance at January 01, 2011</b>	<b>224,418,899</b>	<b>21,369</b>	<b>385,041</b>	<b>17,292</b>	<b>18,255</b>	-	-	<b>(61,838)</b>	<b>380,119</b>
Loss for the year	-	-	-	-	-	-	-	(38,069)	(38,069)
<b>Other comprehensive income</b>									
Foreign currency translation	-	-	-	-	(8,498)	-	-	-	(8,498)
Change in fair value of available-for-sale assets	-	-	-	-	-	13	-	-	13
<b>Total comprehensive loss</b>	-	-	-	-	<b>(8,498)</b>	<b>13</b>	-	<b>(38,069)</b>	<b>(46,554)</b>
<b>Transactions with owners in their capacity as owners:</b>									
Exercise of stock options	16	2,210,000	223	3,795	(1,679)	-	-	-	2,339
Share issuance costs	16	-	-	(260)	-	-	-	-	(260)
Share-based payments	17	-	-	3,016	-	-	-	-	3,016
Issuance of warrants	17	-	-	-	-	-	1,053	-	1,053
<b>Balance at December 31, 2011</b>	<b>226,628,899</b>	<b>21,592</b>	<b>388,576</b>	<b>18,629</b>	<b>9,757</b>	<b>13</b>	<b>1,053</b>	<b>(99,907)</b>	<b>339,713</b>

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

# Northland Resources S.A.

## Consolidated statement of changes in equity (ctd)

		Attributable to the owners of Northland Resources S.A.						
		Share capital			Reserves			
	Notes	Number of shares	Issued and fully paid	Share premium	Share option reserve	Foreign currency translation	Cumulative losses	Total equity
			USD´000	USD´000	USD´000	USD´000	USD´000	USD´000
<b>Balance at February 01, 2010</b>		<b>110,637,399</b>	<b>166,659</b>	<b>-</b>	<b>14,590</b>	<b>4,798</b>	<b>(40,592)</b>	<b>145,455</b>
Loss for the period		-	-	-	-	-	(21,246)	(21,246)
<b>Other comprehensive income</b>								
Foreign currency translation		-	-	-	-	13,457	-	13,457
<b>Total comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,457</b>	<b>(21,246)</b>	<b>(7,789)</b>
<b>Transactions with owners in their capacity as owners:</b>								
Issuance of shares per prospectus	16	113,000,000	11,196	241,833	-	-	-	253,029
Share issuance costs	16	-	-	(14,884)	-	-	-	(14,884)
Exercise of stock options	16	781,500	637	969	(477)	-	-	1,129
Reclassification	16	-	(157,123)	157,123	-	-	-	-
Share-based payments	17	-	-	-	3,179	-	-	3,179
<b>Balance at December 31, 2010</b>		<b>224,418,899</b>	<b>21,369</b>	<b>385,041</b>	<b>17,292</b>	<b>18,255</b>	<b>(61,838)</b>	<b>380,119</b>

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

# Northland Resources S.A.

## Consolidated statement of changes in equity (ctd)

	Notes	Attributable to the owners of Northland Resources S.A.					Total equity USD´000
		Share capital		Reserves			
		Number of shares	Issued and fully paid USD´000	Share option reserve USD´000	Foreign currency translation USD´000	Cumulative losses USD´000	
<b>Balance at February 01, 2009</b>		<b>109,682,065</b>	<b>165,216</b>	<b>14,091</b>	<b>(16,807)</b>	<b>(25,559)</b>	<b>136,941</b>
Loss for the period		-	-	-	-	(15,033)	(15,033)
<b>Other comprehensive income</b>							
Foreign currency translation		-	-	-	21,605	-	21,605
<b>Total comprehensive income</b>		-	-	-	<b>21,605</b>	<b>(15,033)</b>	<b>6,572</b>
<b>Transactions with owners in their capacity as owners:</b>							
Exercise of stock options	16	955,334	1,450	(740)	-	-	710
Share issuance costs	16	-	(7)	-	-	-	(7)
Share-based payments	17	-	-	1,239	-	-	1,239
<b>Balance at January 31, 2010</b>		<b>110,637,399</b>	<b>166,659</b>	<b>14,590</b>	<b>4,798</b>	<b>(40,592)</b>	<b>145,455</b>

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

# Northland Resources S.A.

## Consolidated statement of cash flows

		12 months ended December 31, 2011	11 months ended December 31, 2010	12 months ended January 31, 2010
	Notes	USD´000	USD´000	USD´000
<b>Operating activities</b>				
Loss for the year/period before taxation		(37,667)	(22,325)	(15,033)
<i>Adjustments for non-monetary items:</i>				
Impairment loss	10	9,036	4,572	1,235
Depreciation and amortization		374	224	87
Share-based payments	17	2,249	1,735	759
Loss on disposal of assets, net		1,097	66	69
Foreign exchange loss		104	3,665	3,995
Other non-monetary items		(12)	-	-
		<b>(24,819)</b>	<b>(12,063)</b>	<b>(8,889)</b>
<b>Changes in working capital</b>				
Trade and other receivables		(30,194)	(1,655)	1,675
Other current assets		(1,067)	236	(230)
Trade and other payables		12,520	4,295	309
		<b>(43,560)</b>	<b>(9,187)</b>	<b>(7,135)</b>
<b>Net cash flow used in operating activities</b>				
<b>Cash flows from investing activities</b>				
Investment in exploration and evaluation assets		(20,496)	(24,255)	(25,118)
Proceeds from sale of properties		-	146	-
Acquisition of PPE including Mines under construction		(139,468)	(6,381)	(607)
Long-term receivable		(19,286)	(1,751)	-
		<b>(179,250)</b>	<b>(32,241)</b>	<b>(25,725)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of ordinary shares		2,339	254,156	740
Share issuance costs		(1,430)	(13,725)	(7)
Net proceeds from borrowings		4,302	-	-
Transaction costs prepaid on fund raising		(899)	(2,250)	-
		<b>4,312</b>	<b>238,181</b>	<b>733</b>
<b>Change in cash and cash equivalents</b>				
Effect of changes in exchange rates		5,386	2,704	10,350
<b>Cash and cash equivalents at beginning of the year / period</b>		<b>251,435</b>	<b>52,011</b>	<b>73,787</b>
<b>Cash and cash equivalents at end of the year / period</b>	15	<b>38,323</b>	<b>251,467</b> *	<b>52,011</b>

\* Cash and cash equivalents at December 31, 2010 include an amount of USD 33 thousand as 'Assets held for sale'.

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

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 1. Corporate information

The Company was incorporated on March 13, 1987 under the laws of British Columbia (Canada). On January 18, 2010, Northland Resources Inc moved its domicile and place of effective management to Luxembourg as all of its significant properties are located in Europe. Henceforth, the Company adopted the Luxembourg nationality under the legal form of a "société anonyme" and is subject to the general company law in Luxembourg.

The Company has established its official address at 7A, rue Robert Stümper, L-2557 Luxembourg.

The financial year of the Company which started on February 1, and ended on January 31 each year has been changed on August 23, 2010, so as to begin on January 1 and to end on December 31 each year. Therefore the three historic periods which the Company has presented then started on January 1, 2011 and ended on December 31, 2011 whereas the comparative figures covered periods from February 1, 2010 to December 31, 2010 and from February 1, 2009 to January 31, 2010.

The Company's shares are listed on the Toronto Stock Exchange (NAU), Canada, and on the Oslo Bors (NAUR), Norway. The Company's shares trade on the Open Market of the Frankfurt Stock Exchange, Germany.

The Company and its subsidiaries together are referred as the "Group" or "Northland".

The Group is in the business of acquiring, exploring and evaluating mineral resource properties, and either developing, joint venturing or disposing of the properties when the Group's evaluation is completed. At December 31, 2011, the Group had interests in properties located in Sweden and Finland for which the Group has completed a definitive feasibility study on Kaunisvaara and a preliminary economic analysis on Hannukainen that support economic valuation.

The Group's financial statements up to December 31, 2010 were presented in Canadian Dollar (CAD), which is the functional currency of the Company and was the Group's reporting currency. Following the Board of Directors' approval of December 13, 2010, the Group's reporting currency has changed to US Dollar (USD) with effect from January 1, 2011. For the purpose of this presentation, the figures for the comparative periods have been restated to reflect the change in the reporting currency. All values are rounded to the nearest thousand dollars unless otherwise stated.

These financial statements were authorized for issuance by the Board of Directors on February 8, 2012.

Under Luxembourg law, the financial statements are approved by the shareholders at the annual general meeting.

### 2. Going concern

Northland is still in a project development stage and is not expected to generate revenues until early 2013. As of December 31, 2011 the Group had a cash balance of USD 38.3 million and consequently Management is working on how to secure sufficient financing for the Group's operations until the moment it will start to generate revenues. On December 20, 2011, the Company's fully owned subsidiary Northland Resources AB signed a USD 50 million bridge financing with Standard Bank of South Africa Limited with a final maturity as of March 31, 2012 and which includes various conditions for draw downs. The first draw down of USD 25 million was made on January 25, 2012. On February 2, 2012 the Company launched an offering of new shares to institutional investors in the amount of USD 225-250 million (the "Equity Offering"). At the same time the Swedish subsidiary, Northland Resources AB, launched an offering of a secured bond loan in the amount USD 450 million (the "Bond Offering") in order to finance the development of the Kaunisvaara project. The subscription of the Bond and the Equity Offering are conditional to each other. The Company has attracted a demand in excess of USD 250 million for its Equity Offering from a broad range of high quality investors prior to launch and the guarantee was oversubscribed.

Although there is a material uncertainty as to whether the bridge financing is sufficient to finance the Group's operations until the settlement of the Equity Offering, the Bond Offering, or other sources of financing, whether the conditions for the second draw down of USD 25 million under the bridge financing can be complied with and whether the Group will be able to obtain sufficient financing through the Equity Offering and the Bond Offering to complete the development of the Group's projects, the Board of Directors and Management of the Company are confident that the financing of the Group can be assured based on the agreements it has entered into with certain existing shareholders and institutional investors who have guaranteed subscription of shares in the Equity Offering for an aggregate amount of the equivalent of USD 250 million at the subscription price per share

# Northland Resources S.A.

## Notes to the consolidated financial statements

of NOK 7.0/CAD 1.20 and feedback received from the market and concludes that it has sufficient basis to support the going concern assumption and that such going concern assumption is appropriate under the current circumstances (refer to Note 5.1).

### 3. Statement of compliance

The consolidated financial statements of Northland Resources S.A. have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and IFRS as adopted by the European Union (EU). With respect to Company's consolidated financial statements for the year ended December 31, 2011, there is no difference between IFRS as adopted by the EU and IFRS as issued by the IASB as at the date of the approval of these consolidated financial statements.

### 4. Significant accounting policies

#### 4.1. Basis of preparation

The Group's financial statements were prepared in accordance to Canadian Generally Accepted Accounting Principles (Canadian GAAP) until January 31, 2010. On February 1, 2010 the Group converged to IFRS.

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors (refer to Note 4.5). However, actual outcomes can differ from these estimates.

The Group has no seasonal activity, as it is still in a development stage.

#### 4.2. Basis of consolidation

##### *Basis of consolidation as from February 1, 2010*

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries, after the elimination of inter-company transactions. Subsidiaries are consolidated from the date the Company obtains control until such time as control ceases. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. Refer to Note 22 for details regarding the subsidiaries included in the scope of consolidation.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

##### *Basis of consolidation prior to February 1, 2010*

Certain of the above-mentioned requirements were applied on a prospective basis. However, no difference is carried forward from the previous basis of consolidation.

# Northland Resources S.A.

## Notes to the consolidated financial statements

### ***Business combinations***

#### *Business combinations as from February 1, 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is remeasured until it is finally settled within equity.

#### *Business combinations prior to February 1, 2010*

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

### **4.3. Application of IFRS 1**

The Group adopted IFRS on February 1, 2007 and applied the provisions of IFRS 1 for this transition. In particular:

- IFRS 3R has not been applied to acquisitions of subsidiaries or of interests in associates and joint-ventures that occurred before February 1, 2007. The Canadian GAAP purchase accounting has therefore been maintained for these acquisitions to the extent the recognition criteria of assets acquired and liabilities assumed were met under IFRS. Immediately after such business combinations, the carrying amounts in accordance with Canadian GAAP of assets acquired and liabilities assumed in these business combinations have been their deemed cost in accordance with IFRSs at that date.
- In addition, the Group elected not to apply IAS 21-*The Effects of Changes in Foreign Exchange Rates* to fair value adjustments arising in business combinations that occurred before February 1, 2007 and treated them as assets and liabilities of the parent entity rather than as assets and liabilities of the acquiree. As a consequence, those fair value adjustments have been expressed in CAD, the ultimate parent entity's functional currency. Goodwill arising on the acquisition of a foreign operation occurring after February 1, 2007 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated in accordance with IAS 21 as assets and liabilities of the foreign operation expressed in the functional currency of that foreign operation from that date onwards.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at February 1, 2007. Share-based payment transactions: IFRS 2 *Share-based Payment* has not been applied to equity instruments in share-based payment transactions that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before February 1, 2007.

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 4.4. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended IFRS and IFRIC interpretations as of January 1, 2011:

#### 4.4.1 New standards, interpretations or amendments which are effective for annual periods beginning on or after January 1, 2011

- IAS 24 amendments: *Revised definition of related parties*
- IFRIC 14 amendments: *Prepayments of a minimum funding requirement*
- IFRIC 19 amendments: *Extinguishing Financial Liabilities with Equity Instruments*
- Improvements to IFRS (year 2011)

Adoption of these amendments and improvement to IFRS did not have any effect on the financial performance or position of the Group.

#### 4.4.2 Change of the group reporting currency

As mentioned above, the Company has presented its consolidated financial statements in a currency other than the functional currency which is the Canadian Dollar (CAD). This translation took effect retrospectively from February 1, 2007, the transition date the Company converged to IFRS.

From this date:

- Assets and liabilities for each statement of financial position presented, including comparatives, have been translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income, including comparatives, have been translated at an average rate for the period covered;
- Equity components i.e. share capital, share premium and share option reserve have been translated at the rate (historical rate) prevailing on each transaction date; and
- All resulting exchange differences have been recognized in the 'Other comprehensive income'.

The foreign exchange rates (CAD to USD) used for the translation are as follows:

Closing date	Assets and liabilities Closing rate	Income and expenses Average rate
31 December 2011	0.9789	0.9770
30 September 2011	-	1.0212
30 June 2011	-	1.0337
31 March 2011	-	1.0146
31 December 2010	1.0054	0.9723
31 October 2010	-	0.9701
31 July 2010	-	0.9616
30 April 2010	-	0.9735
31 January 2010	0.9390	0.8914
31 October 2009	-	0.9308
31 July 2009	-	0.8835
30 April 2009	-	0.8036
31 January 2009	0.8088	0.9295
31 October 2008	-	0.9119
31 July 2008	-	0.9906
30 April 2008	-	0.9950
31 January 2008	0.9978	0.9469
31 October 2007	-	0.9824
31 July 2007	-	0.9345
30 April 2007	-	0.8638
31 January 2007	0.8496	not applicable

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## Notes to the consolidated financial statements

### 4.5. Management judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### **Judgments**

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### ***Permits***

The Group's current and anticipated future operations, including further exploration, development activities and commencement of production on the Group's properties, require permits from various governmental authorities in Sweden, Finland and Norway. There can be no assurance that all permits which the Group requires for the construction of mining facilities and the conduct of mining operations will be obtainable on reasonable terms, or at all. Delays or a failure to obtain such permits, or a failure to comply with the terms of any such permits that the Group has obtained, could have a material adverse impact on the Group. There also can be no assurance that once permits are awarded that they will not be challenged at any time.

#### ***Taxes***

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine whether deferred tax assets can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. As at December 31, 2011, the Group had unused tax losses carried forward amounting to USD 105.3 million. These losses relate to subsidiaries that have a history of losses 6% expire between 2016 and 2020 and relates to Finland; the remaining 94% relates to Luxembourg and Sweden and do not expire and may not be used to offset taxable income elsewhere in the Group.

Loss carry-forwards are only valued to the amount of deferred tax liabilities in the same tax jurisdiction and no deferred tax assets or liabilities are recognized in the statement of financial position since liabilities and assets are offset.

#### **Estimated and assumptions**

The key assumptions concerning the future and other key sources of estimation, uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are described below:

#### ***Exploration and evaluation expenditure***

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The capitalization policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the consolidated statement of comprehensive income in the period when the new information becomes available. For the year ended December 31, 2011, exploration and evaluation assets totaling USD 22,706 thousand have been capitalized (without the net exchange differences) as an asset in the consolidated statement of financial position (December 31, 2010 and January 31, 2010: USD 26,354 thousand and USD 23,061 thousand respectively).

#### ***Impairment of exploration and evaluation assets***

The needs for write-down of exploration and evaluation assets are assessed in accordance with the requirements in IFRS 6 Exploration for and Evaluation of Mineral Resources, when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. If there are indications of impairment the Group performs an impairment test in accordance with IAS 36 Impairment of assets.

The major areas of exploration, Kaunisvaara (including the properties Tapuli, Sahavaara and Pellivuoma) and Hannukainen are identified by the Group as their cash generating units (CGU) based on which an impairment

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## Notes to the consolidated financial statements

test will be performed when needed. As at December 31, 2011, exploration and evaluation assets amount to USD 64,165 thousand (December 31, 2010 and January 31, 2010: USD 45,703 thousand and USD 94,241 thousand respectively) and an impairment charge of USD 1,545 thousand has been recognized in the statement of comprehensive income for the period then ended (December 31, 2010 and January 31, 2010: USD (62) and USD 1,235 thousand respectively).

In mid December 2010 the Kaunisvaara project moved from the 'exploration and evaluation' phase to 'mines under construction' phase (refer to Notes 4.7 and 10). An amount of USD 69,842 has been transferred from 'Exploration and evaluation assets' and reclassified under caption 'Mines under construction'.

### **Site restoration costs**

The Group shall make full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis at the time of developing the mines and installing and using those facilities. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The provision as at December 31, 2011 has been calculated based on the conditions in the approved environmental permit.

### **Share-based payment transactions**

The Group measures the cost of equity-settled transactions with officers, directors, employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17.

### **Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## **4.6. Foreign currency translation**

The Group's consolidated financial statements are presented in US Dollar (USD). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency.

Transactions in foreign currencies in the financial statements of an entity are initially recorded in the functional currency of that entity at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The financial statements of entities, within the scope of consolidation, with a functional currency other than USD are converted into USD according to the 'current exchange rate' method. This method provides for the conversion of all assets and liabilities at the exchange rates ruling at the reporting date and all income and expenses are translated at the average rate for the year, which approximates the exchange rates prevailing at the transaction dates. The difference between the value thus obtained and that deriving from the conversion of the same items at the current exchange rate is recorded in the shareholders' equity under the caption 'Foreign currency translation reserve'.

## **4.7. Exploration and evaluation assets**

Exploration and evaluation assets are accounted for in accordance with IFRS 6 – *Exploration for and Evaluation of Mineral Resources*. For exploration and evaluation assets the Group applies the cost model and includes all costs directly related to exploration and evaluation of mineral resources. Included in this balance are costs such as acquisition of rights to explore, topographical studies, exploratory drilling, trenching, sampling and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

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The Group capitalizes the cost of acquiring, maintaining its interest, exploring and developing exploration and evaluation assets until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. When the properties are placed in construction, the costs are reclassified, leading to that they will be accounted for in accordance with IAS 38 Intangible assets or IAS 16 Property, plant and equipment.

In mid December 2010 the Kaunisvaara project moved from the 'exploration and evaluation' phase to 'mines under construction' phase (refer to Note 10).

### 4.8. Mines under construction

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and is reclassified from 'Mines under construction' to 'Producing mines' and 'Property, plant and equipment'. Some of the criteria will include, but are not limited, to the following:

- Level of capital expenditure incurred compared to the original construction cost estimates
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce metal in saleable form (within specifications)
- Ability to sustain ongoing production of metal.

When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs that qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation / amortization commences.

On December 13, 2010 the Board of Directors gave approval to begin the implementation phase of the Kaunisvaara project.

### 4.9. Property, plant and equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

#### **Depreciation**

Items of property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives as follows:

▶ Buildings	20 years
▶ Vehicles	5 years
▶ Computer equipment	3 years
▶ Furniture and fittings	5 years
▶ Leasehold improvements	5 years

The land shall have a useful life of 17 years. It will be depreciated once in production and over the life of the mines.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate.

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## Notes to the consolidated financial statements

### 4.10. Intangible assets

Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight line basis over their useful lives of three years and any accumulated impairment losses.

### 4.11. Impairment of non-financial assets

Exploration and evaluation assets are the major balance of the Groups non-financial assets. These assets are assessed for impairment, in accordance with IFRS 6, when facts and circumstances indicate that the related carrying amounts may exceed its recoverable amount. One or more of the following facts and circumstances indicate that the entity should test exploration and evaluation assets for impairment:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

If there are indications of impairment the entity performs an impairment test in accordance with IAS 36.

Northland has identified each area of exploration Kaunisvaara (including Tapuli, Sahavaara, and Pellivuoma), and Hannukainen as their cash generating units (CGU) based on which an impairment test will be performed when needed.

In mid December 2010 the Kaunisvaara project moved from the 'exploration and evaluation' phase to 'mines under construction' phase (refer to Note 10).

### 4.12. Financial instruments

#### (i) Financial assets

##### Initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition based on IAS 39 categories and classification criteria. All financial assets are recognized initially at fair value. Financial assets held by the Group as at December 31, 2011 have been classified as "loans and receivables" and "available-for-sale".

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

##### *Available-for-sale*

Available-for-sale financial assets are non-derivatives that are designated in this category and are quoted in an active market. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are initially recognized at fair value plus transactions costs. Change in fair value is recognized in the other comprehensive income.

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## Notes to the consolidated financial statements

### (ii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If objective evidence of impairment is identified, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the assets effective interest rate. Impairment of financial assets is reported in the statement of comprehensive income under other operating expenses.

### (iii) Financial liabilities

#### Initial recognition and measurement

The Group determines the classification of its financial liabilities at initial recognition.

The Group's financial liabilities include accounts payable. Accounts payable are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest rate method.

### (iv) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts and cash included in disposal group of assets classified under caption 'Assets held for sale'.

## 4.13. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Group leases buildings including office space, as well as some vehicles.

## 4.14. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

## 4.15. Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

## 4.16. Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

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## Notes to the consolidated financial statements

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available or that there are deferred income tax liabilities against which the temporary differences can be utilized.

Deferred income tax liability is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 4.17. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

The Group has recorded provisions for restoration costs in these financial statements.

### 4.18. Basic and diluted earnings per share

Basic earnings per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted earnings/ losses per share.

### 4.19. Share-based payments

Officers, directors, employees and consultants of the Group receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ('equity-settled transactions'). However, this type of remuneration was discontinued at the annual general meeting held on May 18, 2011. The vesting provisions, as defined in each stock option agreement, are determined by the Board of Directors and do not include performance or non-vesting conditions.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date on which they are granted. The Group uses the Black-Scholes option valuation model to calculate these fair values. Option pricing models require the input of highly subjective assumptions,

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including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity under the caption "share option reserve", over the period in which the service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in the share option reserve, is recorded as an increase to share capital and share premium, if any.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

### *Warrants*

The fair value of the warrants granted is measured using the Black-Scholes pricing model based on the terms and conditions on which they were granted. Service and non-market vesting conditions are not taken into account when estimating the fair value, but are considered when estimating the number of warrants expected to exercise.

At each reporting date, the Group revises the estimate of number of warrants expected to exercise. The impact of this revision, if any, is recognized in the consolidated statement of comprehensive income, and a corresponding adjustment is made to equity over the remaining vesting period. Accordingly, total recognition is based on the number of warrants ultimately exercised. Adjustments relating to prior years are included in the profit or loss in the year of adjustment.

### **4.20. Segment reporting**

The operating segments have been determined based upon the reports reviewed by the Group's Chief Operating decision makers (the Committee), to make strategic decisions.

The Committee considers the business from a geographic perspective based upon the location of the Group's resource properties where exploration and evaluation activities are carried out for economically recoverable minerals. The Group has identified reportable segments as being Sweden and Finland as the Committee monitors the performance of resource properties in these two countries separately. Operating segments that are not individually reportable and certain corporate functions are combined into an "Other" operating segment.

### **4.21. New and amended standards and interpretations issued but not yet effective**

The following standards and interpretations are not effective up to the date of issuance of the Group's consolidated financial statements and which are expected to be relevant for the Group at a future date are listed below. They may result in consequential changes to the accounting policies and other note disclosures. The Group is in the process of analyzing the impact of these standards on its operations.

#### **IAS 1 – Presentation of Financial Statements (Amendment)**

The amendment becomes effective for annual periods beginning on or after July 1, 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss

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subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

### **IAS 12 – Income Taxes (Amendment)**

The amendment becomes effective for annual periods beginning on or after January 1, 2012. The amendment clarified the determination of deferred tax in investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement to calculate deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16, always be measured on the sale basis of the asset.

### **IAS 19 – Employee Benefit (Amendment)**

The amendment becomes effective for annual periods beginning on or after January 1, 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

### **IAS 27 – Consolidated and Separate Financial Statements (Amendment)**

The amendment becomes effective for annual periods beginning on or after January 1, 2013. This standard (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

### **IAS 28 – Investments in Associates (Amendment)**

The amendment becomes effective for annual periods beginning on or after January 1, 2013. This standard (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

### **IFRS 7 - Financial Instruments: Disclosures (Amendment)**

The amendment became effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosures about financial assets that have been transferred, but not derecognized, to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

### **IFRS 9 - Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

### **IFRS 10 – Consolidated Financial Statements**

This new standard becomes effective for annual periods beginning on or after January 1, 2013. IFRS 10 Consolidated Financial Statements includes a new definition of control, which is used to determine which entities are consolidated.

### **IFRS 11 – Joint Arrangements**

This new standard becomes effective for annual periods beginning on or after January 1, 2013. IFRS 11 Joint Arrangements describes the accounting for joint arrangements with joint control; proportionate consolidation is not permitted for joint ventures (as newly defined).

### **IFRS 12 – Disclosure of Interest in Other Entities**

This new standard becomes effective for annual periods beginning on or after January 1, 2013. IFRS 12 Disclosure of Interest in Other Entities includes all of the disclosure requirements for subsidiaries, joint arrangements, associates, and structured entities.

### **IFRS 13 – Fair Value Measurement**

This new standard becomes effective for annual periods beginning on or after January 1, 2013. With IFRS 13 the IASB and the FASB created a uniform framework for how to measure fair value for entities around the world.

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### 5. Financial risk management

#### 5.1. Financial risk factors

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are commodity price risk, foreign currency risk and liquidity risk. Management reviews and agrees policies for managing each of these risks which are summarized below.

The Group's senior management oversees the management of financial risks and that risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and the Group's risk appetite.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

#### **Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risk: commodity price risk and currency risk.

#### **Commodity price risk**

The market prices for iron ore (magnetite), gold, copper, and other metals are volatile and cannot be controlled. There is no assurance that, if commercial quantities of iron ore (magnetite), gold, copper, and other metals are discovered, a profitable market may continue to exist for a production decision to be made or for the ultimate sale of the metals. As the Group is currently not in production, no sensitivity analysis for price changes has been provided or carried out.

#### **Foreign currency risk**

The Group is exposed to foreign currency risk mainly due to inter-company loans granted by the parent company and denominated in the functional currencies of the subsidiaries as well as to its cash balances that are denominated in currencies other than the functional currencies in which they are measured. The Group monitors this exposure, but had no hedge position at December 31, 2011.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's result before tax due to changes in the carrying value of monetary assets and liabilities. The impact on equity is the same as the impact on income.

	Effect on result before tax for the year ended December 31, 2011 Increase/(Decrease) USD million	Effect on result before tax for the period ended December 31, 2010 Increase/(Decrease) USD million	Effect on result before tax for the year ended January 31, 2010 Increase/(Decrease) USD million
<b>Increase foreign exchange rate +5% (versus USD)</b>			
SEK	1.00	12.56	4.30
EUR	0.35	1.86	1.73
CAD	0.05	0.32	0.10
NOK	0.04	0.49	1.36
GBP	0.08	1.39	0.25

A decrease in foreign exchange rates of 5% would have the opposite impact on income.

#### **Liquidity risk**

Liquidity risk encompasses the risk that the Group cannot meet its financial obligations as they fall due. The Group is currently in a development stage and thus is not expected to generate revenues until first quarter 2013 and consequently Management is trying to secure sufficient financing for the Group's operations until the moment it will start to generate revenues (refer to Note 2).

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The Group monitors and measures its cash management efficiently with periodic cash flow forecasts and budgetary control to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (refer to Note 20) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable, external regulatory or legal requirements.

Surplus cash held by Group over and above balance required for working capital management are invested in short-time deposits. At the reporting date, the Group had a cash balance of USD 38,324 thousand (December 31, 2010 and January 31, 2010: USD 251,435 thousand and USD 52,011 thousand respectively).

### ***Credit risk***

The Group considers that the following financial assets are exposed to credit risk: cash, accrued interest receivable, prepaid expenses and deposits. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group does not currently generate any revenues from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfill a contractual obligation. The Group has never held any asset backed paper instruments. The Group seeks to place its cash with reputable financial institutions. Accordingly, the Group believes that it is exposed to minimal credit risks at the current time, although the current concerns surrounding financial institutions globally have increased the risk of a credit default by a major financial institution impacting the Group.

The Group only deposits cash surpluses with major banks of high quality credit standing.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of accounts receivables.

### **5.2. Capital management**

The Group manages its cash, short-term investments, common shares and stock options as capital. As the Group is in the exploration and development stage, its principal source of funds for its operations is from the issuance of common shares. The issuance of common shares requires approval of the Board of Directors. It is the Group's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its Swedish and Finnish properties for the benefit of its stakeholders. The Group uses stock options to retain and provide future incentives to key employees and members of the management team. The granting of stock options is determined by the Board of Directors (refer to Note 17).

### **5.3. Fair value of financial instruments**

The carrying value of the Group's financial instruments, consisting of cash held in interest bearing accounts with major bank institutions and accounts payable approximate their fair value due to the short-term maturity of such instruments. Unless otherwise noted, it is management's opinion that the Group is not exposed to significant interest or credit risks arising from these financial instruments. Although the Group's cash is significantly denominated in foreign currencies, the "purchasing power parity" is maintained against future anticipated foreign currency operating cash outflows.

### **6. Segment information**

Segment information is provided on the basis of geographic segments as the Group monitors its business according to the geographic locations of its resource properties in Sweden and Finland. The business segments presented reflect the management structure of the Group and the way in which the Group's management reviews business performance.

Corporate functions and dormant entities are classified together within "Other" on the basis that they are monitored together by the Committee.

# Northland Resources S.A.

## Notes to the consolidated financial statements

The segment information provided to the Committee for the reportable segments is as follows:

	Sweden USD'000	Finland USD'000	Other USD'000	Total USD'000
<b>December 31, 2011</b>				
<b>Statement of comprehensive income</b>				
Depreciation and amortisation	63	67	244	374
Write-offs	10,093	439	-	10,532
Net income / (loss)	(47,338)	(6,345)	15,614	(38,069)
<b>Statement of financial position</b>				
Exploration and evaluation assets	13,564	50,601	-	64,165
Mines under construction	225,756	-	11,038	236,794
Property, plant and equipment & intangible assets	3,377	6,846	363	10,586
Current assets	57,564	3,608	18,422	79,594
Financial assets	27,632	-	-	27,632
<b>Total assets</b>	<b>327,893</b>	<b>61,055</b>	<b>29,823</b>	<b>418,771</b>
<b>Capital expenditure</b>	<b>1,445</b>	<b>6,595</b>	<b>-</b>	<b>8,040</b>
<b>December 31, 2010</b>				
<b>Statement of comprehensive income</b>				
Depreciation and amortisation	37	28	158	225
Write-offs	3,434	44	82	3,560
Net loss	(10,347)	(1,845)	(9,054)	(21,246)
<b>Statement of financial position</b>				
Exploration and evaluation assets	12,110	33,593	-	45,703
Mines under construction	74,950	-	-	74,950
Property, plant and equipment & intangible assets	1,681	829	2,543	5,053
Assets held for sale	7,711	-	-	7,711
Current assets	7,238	1,236	248,545	257,019
Financial assets	1,751	-	-	1,751
<b>Total assets</b>	<b>105,441</b>	<b>35,657</b>	<b>251,088</b>	<b>392,186</b>
<b>Capital expenditure</b>	<b>576</b>	<b>88</b>	<b>-</b>	<b>664</b>
<b>January 31, 2010</b>				
<b>Statement of comprehensive income</b>				
Depreciation and amortisation	20	12	55	87
Net loss	(5,470)	(744)	(8,819)	(15,033)
<b>Statement of financial position</b>				
Exploration and evaluation assets	66,710	27,531	-	94,241
Property, plant and equipment & intangible assets	885	1,024	2,344	4,253
Current assets	11,563	2,973	39,177	53,713
<b>Total assets</b>	<b>79,158</b>	<b>31,528</b>	<b>41,521</b>	<b>152,207</b>
<b>Capital expenditure</b>	<b>154</b>	<b>327</b>	<b>134</b>	<b>615</b>

# Northland Resources S.A.

## Notes to the consolidated financial statements

In April 2009 the IASB issued amendments to IFRS 8 to clarify that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

As the Committee does review segment assets, the Group has continued to disclose this information. The measure of liabilities as well as the statement of cash flows information have not been disclosed for each reportable segment as this information is not regularly provided to the Committee.

### 7. General and administrative charges

General and administrative expenses are broken down as follows:

	<u>12 months ended December 31, 2011</u>	<u>11 months ended December 31, 2010</u>	<u>12 months ended January 31, 2010</u>
	USD'000	USD'000	USD'000
Depreciation and amortization	374	224	87
Consulting fees	4,219	2,372	2,997
Office and miscellaneous	1,125	756	607
Professional fees	2,368	4,884	2,331
Rent and utilities	478	354	388
Salaries and wages	4,736	2,624	2,376
Shareholder communication	259	133	163
Share-based payments	2,146	1,735	759
Travel and accommodation	1,187	930	580
<b>Total</b>	<b><u>16,892</u></b>	<b><u>14,012</u></b>	<b><u>10,288</u></b>

Professional fees include an amount of USD 1,205 (December 31, 2010 and January 31, 2010: USD 1,490 thousand and USD 1,112 thousand respectively) to auditors Ernst and Young as detailed below:

	<u>12 months ended December 31, 2011</u>	<u>11 months ended December 31, 2010</u>	<u>12 months ended January 31, 2010</u>
	USD'000	USD'000	USD'000
Audit services	479	443	496
Audit related services	5	372	13
Tax services	130	331	603
Other non-audit services	591	344	-
<b>Total</b>	<b><u>1,205</u></b>	<b><u>1,490</u></b>	<b><u>1,112</u></b>

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 8. Finance costs – net

	<u>12 months ended December 31, 2011</u>	<u>11 months ended December 31, 2010</u>	<u>12 months ended January 31, 2010</u>
	USD '000	USD '000	USD '000
Interest income	2,305	389	802
<b>Finance income</b>	<b><u>2,305</u></b>	<b><u>389</u></b>	<b><u>802</u></b>
Bank charges and interest	(88)	(78)	(28)
Foreign exchange loss, net	(96)	(3,665)	(3,852)
Fees related to fund raising	(11,696)	-	-
<b>Finance costs</b>	<b><u>(11,880)</u></b>	<b><u>(3,743)</u></b>	<b><u>(3,880)</u></b>
<b>Finance (costs) / income - net</b>	<b><u>(9,575)</u></b>	<b><u>(3,354)</u></b>	<b><u>(3,078)</u></b>

The Company studied several refinancing options during 2011 (i.e. High Yield Bonds, Senior loan) which have been abandoned by the Board of Directors in favor of an increase in equity and a bonds issuance (refer to Note 2 and Note 27). As such, the costs incurred for such options have been expensed.

### 9. Income tax

	<u>12 months ended December 31, 2011</u>	<u>11 months ended December 31, 2010</u>	<u>12 months ended January 31, 2010</u>
	USD '000	USD '000	USD '000
<b>Current tax:</b>			
Current tax on profits for the year	402	43	-
Adjustments in respect of prior years	-	(14)	-
<b>Total current tax</b>	<b><u>402</u></b>	<b><u>29</u></b>	<b><u>-</u></b>
Deferred tax relating to reversal of temporary difference	-	(1,108)	-
<b>Total income tax expense / (benefit)</b>	<b><u>402</u></b>	<b><u>(1,079)</u></b>	<b><u>-</u></b>

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits or losses of the consolidated entities as follows:

	<u>12 months ended December 31, 2011</u>	<u>11 months ended December 31, 2010</u>	<u>12 months ended January 31, 2010</u>
	USD '000	USD '000	USD '000
<b>Loss before tax</b>	<b><u>(37,667)</u></b>	<b><u>(22,325)</u></b>	<b><u>(15,033)</u></b>
Tax calculated at Parent Company tax rate (2011: 28.80%, 2010: 28.59% and 29,92%)	(10,848)	(6,383)	(4,498)
Adjustment - different tax rates	(181)	190	249
Tax effects of:			
- Expenses not deductible for tax purposes	3,074	1,007	2,545
- Non taxable income	(6,026)	(783)	-
Adjustment on tax for previous year	-	(14)	-
Tax losses for which no deferred income tax asset was recognised	14,383	4,903	1,704
<b>Tax (charge) / income</b>	<b><u>402</u></b>	<b><u>(1,079)</u></b>	<b><u>-</u></b>

# Northland Resources S.A.

## Notes to the consolidated financial statements

The Parent Company has changed its applicable tax rate from 29.92% (Canadian tax rate) to 28.59% and 28.80% (Luxembourgish tax rates) due to the fact that the Parent Company has moved from Canada to Luxembourg.

As of January 31, 2010, the Company terminated its Canadian loss carry forwards in connection with the emigration of the Company to Luxembourg.

The Group has unused tax loss carry-forwards for which no deferred tax asset has been recognized in the statement of financial position in Finland, Sweden, Luxembourg and Norway. As at December 31, 2011 the Swedish unused tax losses carried forward amount to USD 59.4 million (December 31, 2010 and January 31, 2010: USD 18.2 million and USD 10.4 million respectively) and do not expire. The Finnish unused tax losses carried forward amount to USD 6.7 million (December 31, 2010 and January 31, 2010: USD 2.5 million and USD 1.3 million respectively) and expire between 2016 and 2020. The Luxembourgish unused tax losses carried forward amount to USD 39.2 million (December 31, 2010 and January 31, 2010: USD 33.5 million and USD 1.8 million respectively) and do not expire. The Norwegian unused tax losses carried forward amount to USD 0.01 million (December 31, 2010 and January 31, 2010: USD nil respectively).

An analysis of deferred tax assets and liabilities is as follows:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 31, 2010</b>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
<b>Deferred tax assets</b>			
- Tax loss carry forward, recognised	13,416	11,139	7,114
<b>Total deferred tax assets</b>	<u><b>13,416</b></u>	<u><b>11,139</b></u>	<u><b>7,114</b></u>
<b>Deferred tax liabilities</b>			
- Mineral properties and deferred development	12,942	8,734	8,149
- Impairment on shares in subsidiaries	-	1,808	-
- Revaluation of loans to subsidiaries	474	597	-
<b>Total deferred tax liabilities</b>	<u><b>13,416</b></u>	<u><b>11,139</b></u>	<u><b>8,149</b></u>
<b>Net deferred tax assets / (liabilities)</b>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>(1,035)</b></u>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profit is probable. Loss carry-forwards are only valued to the amount of deferred tax liabilities and no deferred tax assets or liabilities are recognized in the statement of financial position since liabilities and assets are offset.

For the rest of tax loss carry-forwards, no deferred income tax assets are recognized as the criteria for recognizing future income tax assets have not been met due to uncertainty of realization.

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 10. Exploration and evaluation assets

The Group has incurred and capitalized USD 64,165 thousand in exploration and evaluation assets up to December 31, 2011, conducting exploration and development activities in Sweden and Finland.

	<u>Sweden</u> <u>USD'000</u>	<u>Finland</u> <u>USD'000</u>	<u>Total</u> <u>USD'000</u>
<b>Cost as at January 31, 2009</b>	<b>43,164</b>	<b>21,658</b>	<b>64,822</b>
Additions	19,294	3,767	23,061
Net exchange differences	5,186	2,407	7,593
Write-offs	(935)	(300)	(1,235)
<b>Cost as at January 31, 2010</b>	<b>66,709</b>	<b>27,532</b>	<b>94,241</b>
Additions	19,452	6,902	26,354
Net exchange differences	7,854	(839)	7,015
Transferred to Mines under construction	(69,842)	-	(69,842)
Write-offs	62	-	62
Held for sale	(12,127)	-	(12,127)
<b>Cost as at December 31, 2010</b>	<b>12,108</b>	<b>33,595</b>	<b>45,703</b>
Additions	2,652	20,054	22,706
Net exchange differences	(405)	(2,609)	(3,014)
Transferred to Mines under construction	(1,142)	-	(1,142)
Transferred from Mines under construction	1,457	-	1,457
Write-offs	(1,106)	(439)	(1,545)
<b>Cost as at December 31, 2011</b>	<b>13,564</b>	<b>50,601</b>	<b>64,165</b>

The Group is in the exploration and development-stage and is in the process of exploring and/or evaluating its mineral properties for economically recoverable resources. No amortization is charged during the exploration and evaluation phase. In mid December 2010 the Kaunisvaara project moved from the 'exploration and evaluation' phase to 'mines under construction' phase (refer to Note 11).

During the years ended December 31, 2011 capitalized amounts are composed mainly of consulting fees, salaries and wages, drilling costs and travel and accommodation costs.

Amounts written off are classified under caption 'Other operating expenses'.

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## Notes to the consolidated financial statements

### 11. Mines under construction

	<u>USD '000</u>
<b>Cost as of February 1, 2010</b>	-
Transferred from exploration and evaluation assets (refer to note 10)	69,842
Additions	4,778
Net exchange differences	330
	<u>74,950</u>
<b>Cost as at December 31, 2010</b>	1,142
Transferred from exploration and evaluation assets (refer to note 10)	(1,457)
Transferred to exploration and evaluation assets (refer to note 10)	(554)
Transferred to PPE (refer to note 12)	180,210
Additions	(11,515)
Net exchange differences	(5,894)
Write-offs	(88)
Other	(88)
	<u>236,794</u>
<b>Cost as at December 31, 2011</b>	<u>236,794</u>

'Mines under construction' are not depreciated until construction is completed. This is signified by the formal commissioning of the mine for production.

Amounts written off are classified under caption 'Other operating expenses'. The management has performed an impairment test on the cost incurred in the year under review and has identified USD 5.9 million to be written off as indirect costs.

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 12. Property, plant and equipment

	Land & buildings	Computer equipment	Machinery, furniture and equipment	Vehicles	Leasehold improvements	Assets not yet placed in service	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
<b>Cost as at January 31, 2009</b>	<b>604</b>	<b>178</b>	<b>444</b>	<b>73</b>	<b>600</b>	<b>1,740</b>	<b>3,639</b>
Additions	34	22	179	-	4	279	519
Disposals	-	(47)	(51)	-	(12)	-	(111)
Net exchange differences	58	24	53	7	71	295	508
	<b>696</b>	<b>177</b>	<b>625</b>	<b>80</b>	<b>663</b>	<b>2,314</b>	<b>4,555</b>
<b>Cost as at January 31, 2010</b>	<b>696</b>	<b>177</b>	<b>625</b>	<b>80</b>	<b>663</b>	<b>2,314</b>	<b>4,555</b>
Additions	478	48	101	32	6	-	665
Reclassification	128	-	(29)	(53)	(127)	(314)	(395)
Assets held for sale	(12)	(4)	-	(14)	-	-	(30)
Net exchange differences	20	12	20	7	58	163	280
	<b>1,310</b>	<b>233</b>	<b>718</b>	<b>52</b>	<b>600</b>	<b>2,163</b>	<b>5,075</b>
<b>Cost as at December 31, 2010</b>	<b>1,310</b>	<b>233</b>	<b>718</b>	<b>52</b>	<b>600</b>	<b>2,163</b>	<b>5,075</b>
Additions	6,999	95	168	41	-	-	7,303
Disposals	-	-	-	(9)	-	-	(9)
Transferred from Mines under construction (refer to note 11)	547	-	-	7	-	-	554
Transferred to intangible assets	-	-	-	-	-	(88)	(88)
Impairment	-	-	-	-	-	(1,443)	(1,443)
Net exchange differences	(635)	(10)	(30)	(3)	(17)	(54)	(749)
	<b>8,221</b>	<b>317</b>	<b>856</b>	<b>88</b>	<b>583</b>	<b>578</b>	<b>10,643</b>
<b>Cost as at December 31, 2011</b>	<b>8,221</b>	<b>317</b>	<b>856</b>	<b>88</b>	<b>583</b>	<b>578</b>	<b>10,643</b>

# Northland Resources S.A.

## Notes to the consolidated financial statements

	Land & buildings USD'000	Computer equipment USD'000	Machinery, furniture and equipment USD'000	Vehicles USD'000	Leasehold improvements USD'000	Assets not yet placed in service USD'000	Total USD'000
<b>Accumulated depreciation as at January 31, 2009</b>	<b>(34)</b>	<b>(73)</b>	<b>(67)</b>	<b>(30)</b>	<b>(35)</b>	-	<b>(239)</b>
Additions	(37)	(43)	(113)	(13)	(129)	-	(335)
Disposals	-	15	14	-	12	-	42
Net exchanges differences	(4)	(12)	(8)	(3)	(5)	-	(32)
<b>Accumulated depreciation as at January 31, 2010</b>	<b>(74)</b>	<b>(113)</b>	<b>(174)</b>	<b>(46)</b>	<b>(157)</b>	-	<b>(564)</b>
Additions	(20)	(45)	(127)	(17)	(139)	-	(348)
Reclassification	52	6	(24)	29	(52)	-	11
Assets held for sale	-	3	-	9	-	-	12
Net exchanges differences	(7)	(8)	(9)	(13)	(14)	-	(51)
<b>Accumulated depreciation as at December 31, 2010</b>	<b>(49)</b>	<b>(158)</b>	<b>(334)</b>	<b>(38)</b>	<b>(363)</b>	-	<b>(941)</b>
Additions	(73)	(40)	(155)	(22)	(125)	-	(415)
Reclassification	-	-	-	4	-	-	4
Net exchanges differences	10	6	19	1	18	-	54
<b>Accumulated depreciation as at December 31, 2011</b>	<b>(112)</b>	<b>(192)</b>	<b>(470)</b>	<b>(55)</b>	<b>(470)</b>	-	<b>(1,298)</b>
<b>Net book value as at January 31, 2010</b>	<b>622</b>	<b>64</b>	<b>451</b>	<b>34</b>	<b>506</b>	<b>2,315</b>	<b>3,991</b>
<b>Net book value as at December 31, 2010</b>	<b>1,261</b>	<b>76</b>	<b>383</b>	<b>14</b>	<b>238</b>	<b>2,163</b>	<b>4,135</b>
<b>Net book value as at December 31, 2011</b>	<b>8,109</b>	<b>126</b>	<b>386</b>	<b>33</b>	<b>113</b>	<b>578</b>	<b>9,345</b>

In the 2009 financial year, the former management of the Group purchased a piece of mining equipment namely a crusher. As this asset has not been placed in service, nor is it available for use, it has been classified as "assets not yet placed in service" and has not been depreciated till end of December 31, 2010. For the year under review, the present management has revalued the asset at market price and an impairment loss for an amount of USD 1,443 thousand was recognized in the profit or loss. The equipment has been insured and is being maintained in good condition.

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 13. Financial assets

Financial assets are composed of:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 31, 2010</b>
	<b>USD´000</b>	<b>USD´000</b>	<b>USD´000</b>
Escrow account	23,536	1,751	-
Available-for-sale assets	667	-	-
Long-term receivables	3,429	-	-
	<b>27,632</b>	<b>1,751</b>	<b>-</b>

The escrow account is held with Nordea as counter indemnity for an environmental reclamation bond for the Tapuli mine and Kaunisvaara mill as well as bank guarantees to main third party suppliers. The total amount of escrow account as at December 31, 2011 was USD 37,327 thousand, of which USD 23,536 thousand have been classified as non-current assets and USD 13,791 thousand as other current assets being amount falls due within one year (December 31, 2010 and January 31, 2010 : USD nil).

Available-for-sale assets are quoted securities of Orex Minerals Inc.

The total amount of long-term receivables as at December 31, 2011 was USD 4,900, of which USD 3,429 thousand have been classified as non-current assets and USD 1,471 thousand as other current assets being amount falls due within one year (December 31, 2010 and January 31, 2010: USD nil).

### 14. Accounts receivable

Accounts receivable are broken down as follows:

	<b>As at December 31, 2011</b>	<b>As at December 31, 2010</b>	<b>As at January 31, 2010</b>
	<b>USD´000</b>	<b>USD´000</b>	<b>USD´000</b>
Accrued interest	-	83	101
VAT receivables	17,037	2,573	971
Other receivables	254	235	113
<b>Total</b>	<b>17,291</b>	<b>2,891</b>	<b>1,185</b>

As at December 31, 2011 there was no allowance for impairment in value. Below is an aged analysis of the Group's accounts receivable:

	<b>As at December 31, 2011</b>	<b>As at December 31, 2010</b>	<b>As at January 31, 2010</b>
	<b>USD´000</b>	<b>USD´000</b>	<b>USD´000</b>
Less than 1 month	5,773	117	2
1 to 3 months	7,931	2,533	988
3 to 6 months	3,095	6	107
Over 6 months	492	235	88
<b>Total</b>	<b>17,291</b>	<b>2,891</b>	<b>1,185</b>

In determining the recoverability of receivables, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty.

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 15. Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. As of December 31, 2011, the amount of cash and cash equivalents was USD 38,324 thousand (December 31, 2010 and January 31, 2010: USD 251,435 thousand and USD 52,011 thousand respectively), which correspond to their fair value. The below cash and cash equivalents at December 31, 2010 excludes an amount of USD 33 thousand classified under caption 'Assets held for sale'.

	As at December 31, 2011	As at December 31, 2010	As at January 31, 2010
	USD'000	USD'000	USD'000
Cash at banks	38,324	22,844	52,011
Short-term deposits	-	228,591	-
<b>Total</b>	<b>38,324</b>	<b>251,435</b>	<b>52,011</b>

### 16. Share capital and reserves

#### Share capital

**Authorized:** CAD 937,681 thousand common shares. The Company has one class of shares outstanding with no nominal value.

#### *Issued and outstanding:*

	Number	Amount USD'000
<b>Balance as at January 1, 2009</b>	<b>109,682,065</b>	<b>165,216</b>
For cash:		
Exercise of share purchase options	955,334	740
Less: issued share costs	-	(7)
Share option reserve transferred on exercise of share purchase options	-	710
<b>Balance as at January 31, 2010</b>	<b>110,637,399</b>	<b>166,659</b>
For cash:		
Exercise of share purchase options	411,500	673
Reallocation to share premium account	-	(62)
Reduction in the accounting par value of the issued share capital and transferred to share premium	-	(157,123)
<b>Balance as at August 23, 2010 (EGM)</b>	<b>111,048,899</b>	<b>10,147</b>
Exercise of share purchase options	370,000	26
Issuance of shares as at December 9, 2010	113,000,000	11,196
<b>Balance as at December 31, 2010</b>	<b>224,418,899</b>	<b>21,369</b>
For cash:		
Exercise of share purchase options	2,210,000	223
<b>Balance as at December 31, 2011</b>	<b>226,628,899</b>	<b>21,592</b>

# Northland Resources S.A.

## Notes to the consolidated financial statements

In 2010, the Company reduced the accounting par value on its shares to CAD 0.10 and allocated the remaining part to the share premium account, with a subsequent amendment to article 5.1 of the Company's articles of association.

At December 31, 2011, the issued share capital is equivalent to CAD 22,663 thousand (December 31, 2010 and January 31, 2010: CAD 22,442 thousand and CAD 182,607 thousand respectively) and are fully paid.

### Share premium

	<u>Amount</u> <u>USD '000</u>
<b>Balance as at February 1, 2010 and 2009</b>	-
Reallocation from share capital account as per EGM of August 23, 2010	157,123
Share option reserve transferred on exercise of share purchase options	477
For cash:	
Exercise of share purchase options premium	430
Reallocation from share capital account	62
Additional contribution on issued shares as at December 9, 2010	241,833
Less: issue share costs	(14,884)
<b>Balance as at December 31, 2010</b>	<u><b>385,041</b></u>
For cash:	
Exercise of share purchase options premium	2,116
Share option reserve transferred on exercise of share purchase options	1,679
Less: issue share costs	(260)
<b>Balance as at December 31, 2011</b>	<u><u><b>388,576</b></u></u>

### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

### Share option reserve

The share option reserve is used to recognize the value of equity settled share-based payment transactions with officers, directors, employees and consultants of the Group.

## 17. Share based payments

### Stock options

At the Annual General Meeting on May 18, 2011 the Group's stock option plan (the "Plan") for officers, director's, employees and consultants was not re-approved and consequently no further options may be granted by the Board of Directors. The Plan allowed for a maximum of 15% of the issued shares to be reserved for issuance under the Plan. All outstanding options granted before May 18, 2011 are still valid.

For share based payments with parties other than employees, there shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably and that the fair value is measured at the date the Group obtains the goods or the counterparty renders service. However, the Group rebutted this presumption and has determined that it cannot estimate reliably the fair value of the goods or services received due to the fact that these services will be valuable only to the extent that the business targets are reached or over-performed. Accordingly, the Group measured the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the dates the entity obtained the goods or the counterparty rendered the service.

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## Notes to the consolidated financial statements

A summary of the share purchase options granted under the Group's stock option plan is as follows:

	Number of options	Weighted Average Exercise Price CAD	Weighted Average Exercise Price USD
<b>Outstanding as at February 1, 2009</b>	<b>10,036,500</b>	<b>1.16</b>	<b>1.05</b>
<i>Exercisable 9,266,500</i>			
Granted	1,000,000	1.35	1.18
Exercised	(955,400)	0.89	0.81
Forfeited	(10,000)	1.00	0.94
Expired	(3,324,600)	1.47	1.29
<b>Outstanding as at January 31, 2010</b>	<b>6,746,500</b>	<b>1.08</b>	<b>0.98</b>
<i>Exercisable 6,721,500</i>			
Granted	4,650,000	3.36	3.35
Exercised	(781,500)	0.89	0.81
Cancelled	(100,000)	3.36	3.36
<b>Outstanding as at December 31, 2010</b>	<b>10,515,000</b>	<b>2.08</b>	<b>2.03</b>
<i>Exercisable 5,965,000</i>			
Granted	600,000	3.81	3.97
Exercised	(2,210,000)	1.05	0.93
Cancelled	(60,000)	3.01	2.98
<b>Outstanding as at December 31, 2011</b>	<b>8,845,000</b>	<b>2.46</b>	<b>2.43</b>
<i>Exercisable 5,995,000</i>			

Following the migration of the Company to Luxembourg, the Company could only issue shares at, or in excess, of the accounting par value. This restriction applied to the Company's share option agreements. Following the change in the accounting par value of the shares as described in Note 16, this restriction no longer applies to the above stock options from August 23, 2010.

During the period ended December 31, 2011, a compensation charge associated with the granting of share purchase options under the stock option plan in the amount of USD 3,017 thousand (December 31, 2010 and January 31, 2010: USD 3,181 thousand and USD 1,208 thousand respectively) was recognized in the financial statements. Of this amount, USD 787 thousand (December 31, 2010 and January 31, 2010: USD 1,446 thousand and USD 450 thousand respectively) was related to individuals whose salaries and consultancy fees are capitalized to the exploration and evaluation assets as well as to the mines under construction. The remaining is included in the general and administrative charges (refer to Note 7).

The weighted average fair value of options granted during the period ended December 31, 2011 was USD 1.50 (December 31, 2010 and January 31, 2010: USD 1.43 and USD 0.59 respectively) per option.

The weighted average fair value of options granted during the period was determined using the Black-Scholes valuation model. For the purpose of the calculation, the following weighted average assumptions were used:

	Year ended December 31, 2011	Period ended December 31, 2010	Year ended January 31, 2010
Expected dividend yield	0%	0%	0%
Expected stock price volatility	85.00%	85.50%	83.56%
Risk-free interest rate	1.72%	1.73%	2.20%
Expected life in years	5 years	3 years	5 years

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that

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## Notes to the consolidated financial statements

the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

As at December 31, 2011, the following share purchase options were outstanding entitling the holder thereof the right to purchase one common share for each option held:

Outstanding	Exercise price (CAD per option)	Exercise price (USD per option)	Outstanding	Weighted	Weighted	Weighted
			options	average exercise price CAD	average exercise price* USD	average remaining contractual life
	1.00 - 1.39	0.98 - 1.36	3,545,000	1.08	1.06	4.74
	2.33	2.28	200,000	2.33	2.28	0.10
	3.03 - 3.27	2.97 - 3.20	700,000	3.13	3.07	4.00
	3.36 - 3.86	3.29 - 3.78	4,400,000	3.46	3.39	3.44
<b>Outstanding as at December 31, 2011</b>			<b>8,845,000</b>	<b>2.45</b>	<b>2.40</b>	<b>3.93</b>

Exercisable	Exercise price (CAD per option)	Exercise price (USD per option)	Outstanding	Weighted average	Weighted average	Weighted average
			options	exercise price CAD	exercise price* USD	remaining contractual life
	1.00 - 1.39	0.98 - 1.36	3,545,000	1.08	1.06	4.74
	2.33	2.28	200,000	2.33	2.28	0.10
	3.03 - 3.27	2.97 - 3.20	350,000	3.13	3.06	4.00
	3.36 - 3.84	3.29 - 3.76	1,900,000	3.40	3.33	3.30
<b>Exercisable as at December 31, 2011</b>			<b>5,995,000</b>	<b>1.98</b>	<b>1.94</b>	<b>4.08</b>

As at December 31, 2010, the following share purchase options were outstanding entitling the holder thereof the right to purchase one common share for each option held:

Outstanding	Exercise price (CAD per option)	Exercise price (USD per option)	Outstanding	Weighted	Weighted	Weighted
			options	average exercise price CAD	average exercise price* USD	average remaining contractual life
	0.37 - 1.55	0.37 - 1.56	5,765,000	1.07	1.08	4.22
	2.33	2.34	200,000	2.33	2.34	2.00
	3.03 - 3.27	3.05 - 3.29	700,000	3.13	3.15	5.00
	3.36 - 3.84	3.38 - 3.86	3,850,000	3.40	3.42	4.30
<b>Outstanding as at December 31, 2010</b>			<b>10,515,000</b>	<b>2.08</b>	<b>2.09</b>	<b>4.21</b>

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Exercisable	Exercise price (CAD per option)	Exercise price (USD per option)	Outstanding options	Weighted average exercise price	Weighted average exercise price*	Weighted average remaining contractual life
				CAD	USD	
	0.37 - 1.55	0.37 - 1.56	5,765,000	1.07	1.08	4.22
	2.33	2.34	200,000	2.33	2.34	2.00
<b>Exercisable as at December 31, 2010</b>			<b>5,965,000</b>	<b>1.11</b>	<b>1.12</b>	<b>4.12</b>

As at January 31, 2010, the following share purchase options were outstanding entitling the holder thereof the right to purchase one common share for each option held:

Outstanding	Exercise price (CAD per option)	Exercise price (USD per option)	Outstanding options	Weighted average exercise price	Weighted average exercise price*	Weighted average remaining contractual life
				CAD	USD	
	0.37 - 0.74	0.35 - 0.69	931,500	0.45	0.42	2.54
	1.00 - 1.55	0.94 - 1.46	5,615,000	1.15	1.08	5.04
	2.33	2.19	200,000	2.33	2.19	1.30
<b>Outstanding as at January 31, 2010</b>			<b>6,746,500</b>	<b>1.08</b>	<b>1.02</b>	<b>4.60</b>

Exercisable	Exercise price (CAD per option)	Exercise price (USD per option)	Outstanding options	Weighted average exercise price	Weighted average exercise price*	Weighted average remaining contractual life
				CAD	USD	
	0.37 - 0.74	0.35 - 0.69	931,500	0.45	0.42	2.54
	1.00 - 1.55	0.94 - 1.46	5,590,000	1.15	1.08	5.04
	2.33	2.19	200,000	2.33	2.19	1.30
<b>Exercisable as at January 31, 2010</b>			<b>6,721,500</b>	<b>1.08</b>	<b>1.02</b>	<b>4.61</b>

\* Refer to Note 4.4.2 (c)

### Warrants

As part of the loan agreement dated December 20, 2011 (refer to Note 25) 1,697,995 warrants have been issued by the Company to Standard Bank (the 'Holder') pursuant to a Warrant Certificate issued on December 23, 2011. Each warrant entitling the Holder to subscribe at an exercise price of CAD 1.06 for one ordinary share in the capital of the Company on the terms and conditions defined in the said Warrant Certificate.

Management has recognized these warrants as equity in accordance with IFRS 2 – *Share-based payment*.

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As December 31, 2011, the weighted average fair value of these warrants was determined using the Black-Scholes valuation model. For the purpose of the calculation, the following weighted average assumptions were used:

	<u>Year ended December 31, 2011</u>	<u>Period ended December 31, 2010</u>	<u>Year ended January 31, 2010</u>
Expected dividend yield	0%	-	-
Expected stock price volatility	70.60%	-	-
Risk-free interest rate	0.99%	-	-
Expected life in years	3 years	-	-

	<u>Number of warrants issued</u>	<u>Weighted average exercise price</u>	<u>Weighted average exercise price</u>
		CAD	USD
<b>Balance as at February 1, 2010 and December 31, 2010</b>	-	-	-
Granted	1,697,995	1.06	1.08
<b>Outstanding as at December 31, 2011</b>	<b>1,697,995</b>	<b>1.06</b>	<b>1.08</b>
<b>Fair market value of warrants granted (CAD' 000)</b>	<b>1,073</b>		
<b>Using the foreign exchange rate on December 23, 2011 (date of issuance) (USD' 000)</b>		<b>1,053</b>	

### 18. Earnings per share

Basic earnings per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive instruments were exercised or converted to common shares.

For year ended December 31, 2011 the net loss attributable to equity holders of the parent, and the weighted average number of shares outstanding, are set out in the table below.

	<u>12 months ended December 31, 2011</u>	<u>11 months ended December 31, 2010</u>	<u>12 months ended January 31, 2010</u>
Net loss attributable to shareholders (USD '000)	(38,069)	(21,246)	(15,033)
Weighted average shares issued for the period	225,553,132	117,721,085	110,327,696
<b>Weighted loss per share for the year (in USD)</b>	<b>(0.17)</b>	<b>(0.18)</b>	<b>(0.14)</b>

Fully diluted earnings have not been presented since the effects of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted earnings/losses per share.

Instruments that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented, are disclosed in Note 17.

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 19. Legal reserve

In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial period to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

As at December 31, 2011, no legal reserve has been funded as no profit has yet been made since the Company has been in Luxembourg.

### 20. Borrowings

a) Pursuant to a Facility Agreement dated September 21, 2011, the Group through a Finnish subsidiary has been granted a bank loan of EUR 3,300 thousand (USD 4,501 thousand). The loan has been used to partly finance the acquisition and development of 72 plots of land in Äkäsjoki and Hannukainen, Finland.

The loan is secured and is repayable in full at maturity date, which date is 5 years after the date of the Agreement.

b) Pursuant to a Bridge loan Facility Agreement dated December 20, 2011, the Group through a Swedish subsidiary has been granted a short-term bank loan of USD 50 million for its on-going Kaunisvaara project (refer to Note 25).

The loan is secured and is repayable in full at maturity date, which date is scheduled on March 31, 2012.

No drawdown has been done as at December 31, 2011. The availability period for the facility lapses on February 29, 2012.

### 21. Trade and other payables

Trade and other payables are broken down as follows:

	As at December 31, 2011	As at December 31, 2010	As at January 31, 2010
	USD '000	USD '000	USD '000
Trade payables	71,910	8,574	4,441
Other payables	2,098	3,335	1,276
<b>Total</b>	<b>74,008</b>	<b>11,909</b>	<b>5,717</b>

Terms and conditions of the above financial liabilities:

- ▶ Trade payables are non-interest bearing and are normally settled on 30 days.
- ▶ Other payables are non-interest bearing and have an average term of 60 days.

The maturity profile of the payables as at December 31, 2011 is as follows:

	USD '000
Not later than 1 month	36,250
Later than 1 month but not more than 3 months	32,152
Later than 3 months but not more than 6 months	32
More than 6 months	5,574
<b>Total</b>	<b>74,008</b>

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## Notes to the consolidated financial statements

### 22. Related party transactions

#### Relationships

Companies and persons which control or to a significant extent influence the Company or its subsidiaries or which are controlled or to a significant extent influenced by the Company or its subsidiaries are to be regarded as related parties under IAS 24. Therefore, for the Group, the related parties comprise subsidiaries and key management personnel.

#### Terms and conditions of transactions with related parties

The Group in the normal course of business carries out transactions with related parties on commercial or agreed upon terms and conditions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash or share based payment. There have been no guarantees provided or received for any related party receivables or payables.

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

<u>Entity's name</u>	<u>Country of incorporation</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 31, 2010</u>
<b>Northland Resources S.A.</b>	<b>Luxembourg</b>	<b>Parent</b>	<b>Parent</b>	<b>Parent</b>
Northland Resources S.A - Swiss branch	Switzerland	100%	100%	-
<b><u>Parent directly owns the following entities:</u></b>				
North American Gold (Barbados) Inc.	Barbados	100%	100%	100%
Northland Sweden AB (formerly Northland Resources Tapuli Mine AB)	Sweden	100%	100%	100%
Northland Mines OY	Finland	100%	100%	100%
<b><u>Parent indirectly owns the following entities through Northland Sweden AB:</u></b>				
Northland Exploration Sweden AB (formerly Barsele Guld AB)	Sweden	100%	100%	100%
Northland Resources AB	Sweden	100%	100%	100%
Northland Logistics AB (formerly Northland Exploration Sweden AB)	Sweden	100%	100%	100%
Northland Logistics AS	Norway	100%	-	-
<b><u>Parent indirectly owns the following entity through Northland Mines OY:</u></b>				
Northland Exploration Finland OY	Finland	100%	100%	100%

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## Notes to the consolidated financial statements

### Transactions with common key management and directors:

The Group incurred charges with entities having a common key management and directors in the normal course of operations as detailed in the table below:

	12 months ended December 31, 2011	11 months ended December 31, 2010 (Restated*)	12 months ended January 31, 2010 (Restated*)
	USD '000	USD '000	USD '000
Consultancy fees	637	381	275
Management fees	288	746	759
Share-based payments	411	530	258
Termination benefits	165	-	836
<b>Total</b>	<b>1,501</b>	<b>1,657</b>	<b>2,128</b>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

The Company paid fees to a private company controlled by a director of the Company for consulting services performed outside of his capacity as a director.

### Compensation to key management personnel and directors of the Group

	12 months ended December 31, 2011	11 months ended December 31, 2010 (Restated*)	12 months ended January 31, 2010 (Restated*)
	USD '000	USD '000	USD '000
Salaries and directors fees	2,873	1,667	1,578
Share-based payments	2,086	1,925	600
Termination benefits	-	919	-
<b>Total</b>	<b>4,959</b>	<b>4,511</b>	<b>2,178</b>

Share-based payments are the fair value of options granted to key management personnel and directors.

\* The figures for the comparative periods have been amended to include all key management and personnel.

### Account receivable and payable

Account payable included amounts due to a director of the Group and to an entity with a common director. Accounts receivable included amounts due from an officer of the Group.

	December 31, 2011	December 31, 2010	January 31, 2010
	USD '000	USD '000	USD '000
Accounts receivable	71	-	83
Trade and other payables	(2)	(37)	-

# Northland Resources S.A.

## Notes to the consolidated financial statements

### 23. Assets of disposal group classified as held for sale

The assets and liabilities related to wholly-owned subsidiaries Gunnarn Mining AB and Gunnarn Exploration AB which form part of the Swedish segment, have been presented as held for sale following the approval of the Board of Directors and the shareholders on October 19, 2010 to dispose these entities in Sweden. Pursuant to the Letter of Intent dated October 27, 2010 the completion date of the transaction was on April 29, 2011.

The agreed selling price pursuant to the agreement entered into with the identified acquirer was USD 8.5 million (USD 5 million in cash and USD 3.5 million in shares). The fair value less costs to sell on the disposal date was USD 7.0 million and the net carrying amount of the disposal assets on April 29, 2011 was USD 7.3 million, leading to an additional loss amounting to USD 0.3 million during the 3-month period ended June 30, 2011. The total loss on disposal amounts to USD 6.3 million of which USD 1.7 million has impacted the 9-month period ended September 30, 2011 (USD 4.6 million was already booked in the 2010's annual consolidated financial statements).

At completion date, the Company received USD 2 million in cash and USD 1 million in quoted securities in the buyer Orex Minerals Inc.. The quoted securities have been accounted as available-for-sale assets with changes in fair value booked in 'Other comprehensive income' (fair value amounts to USD 0.7 million as at December 31, 2011). The long-term receivables towards the acquirer (nominal value: USD 5.5 million) have also been classified as financial assets (at fair value) and amount to USD 4.9 million as at December 31, 2011.

### 24. Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments recognized in the consolidated statement of financial position by level of the fair value hierarchy\*:

	Level 1 USD' 000	Level 2 USD' 000	Level 3 USD' 000	Total USD' 000
<b>December 31, 2011</b>				
Available-for-sale financial assets	667	-	-	667
Long-term receivables	-	4,900	-	4,900
	<b>667</b>	<b>4,900</b>	<b>-</b>	<b>5,567</b>
<b>December 31, 2010</b>	<b>none</b>			
<b>January 31, 2010</b>	<b>none</b>			

\*The different levels of the fair value hierarchy are defined as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – Use of a model with inputs (other than quoted prices included in Level 1) that are directly or indirectly observable market data.
- Level 3 – Use of a model with inputs that are not based on observable market data.

The estimated fair value of the long-term receivables is the discounted amount of the estimated future cash flows expected to be received.

### 25. Financial commitments

#### Operating lease

As at December 31, 2011 the Group's operating lease commitments for leases on buildings and vehicles totaled USD 28,678 thousand (December 31, 2010 and January 31, 2010: USD 1,343 and USD 719 thousand respectively). These leases have an average life of 9.6 years (at December 31, 2010 and January 31, 2010: 2.5 years and 3 years respectively) with renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases.

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## Notes to the consolidated financial statements

Future minimum lease payments under non-cancellable operating leases as at December 31, 2011 are as follows:

	December 31, 2011	December 31, 2010	January 31, 2010
	USD '000	USD '000	USD '000
Not later than 1 year	3,301	728	488
Later than 1 year but not more than 5 years	11,637	615	231
More than 5 years	13,740	-	-
<b>Total</b>	<b>28,678</b>	<b>1,343</b>	<b>719</b>

Operating lease expenses incurred in the year 2011 amounts to USD 1,690 thousand.

### Commitments under purchase agreements

The Group has entered into purchase agreements for the pre-development of the mine construction and the completion of power station procurement facilities at the Kaunisvaara site. The total estimates for the related purchase commitments arising under these agreements as at December 31, 2011 amount to USD 522,331 thousand.

### Commitments under off-take agreements

The entire planned production of 4.4 million dry metric tonnes per year has now been fully committed in firm off-take agreements with three global, well-established and solid partners, for terms of up to 7 years. 20% of production has been committed to Stemcor UK Ltd and to Tata Steel UK each and the remaining 60% to Standard Bank Plc.

### Northland signed a USD 50 million Bridge Financing for its Kaunisvaara project

On December 20, 2011 Northland signed an agreement with Standard Bank of South Africa Limited (thereafter referred as 'Standard Bank') for a short-term bridge loan facility of USD 50 million. No drawdown has been made at December 31, 2011.

As part of the loan agreement, warrants exercisable into less than 1 percent of the total issued shares of the Company with an exercise price of CAD 1.06 per share have been issued to Standard Bank following the approval of the Toronto Stock Exchange. The loan will be drawn down in two tranches. The Company intends to replace the bridge loan with a permanent financing package, to include all logistics, during the first quarter of 2012. The agreement with Standard Bank secures financing for the budgeted capital investments for the Kaunisvaara project, including logistics, until the end of the first quarter of 2012.

Assets of the Group were pledged pursuant to a pledge agreement dated January 4, 2012 (refer to Note 27 for details).

### 26. Contingent liability

The total estimated cost for restoration of the Kaunisvaara mines amount to USD 28.3 million (SEK 197 million). At the reporting date a provision of USD 327 thousand has been booked in the statement of the financial position. The balance of USD 28 million has been recorded as contingent liability.

### 27. Subsequent events

(a) Pursuant to a pledge agreement dated January 4, 2012 relevant to the Bridge Loan Facility Agreement between Northland Resources S.A. and the Standard Bank, the Group have, inter alia, pledged shares, inter company loans, onshore bank accounts, real properties and rights under material contracts to the Standard Bank. Pledged shares are Northland Sweden AB, Northland Resources AB, Northland Logistics AB and Northland Logistics AS, Northland Mines Oy and Northland Exploration Sweden AB. The Bridge Loan Facility has also been guaranteed by Northland Resources S.A., Northland Sweden AB, Northland Logistics AB and Northland Logistics AS.

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## Notes to the consolidated financial statements

(b) On January 25, 2012 the first drawdown of USD 25 million was made on the bridge loan facility of USD 50 million granted by Standard Bank of South Africa Limited as referred to Note 25.

(c) On February 2, 2012 the Company has launched an equity offering of the equivalent of minimum USD 225 million and maximum USD 250 million (the "Equity Offering") as well as a senior secured bond offering for a minimum USD 450 million (the "Bond Offering") (together the "Offerings"), in total up to USD 700 million.

The Company has entered into guarantee agreements with certain existing shareholders and institutional investors who have guaranteed subscription of shares in the Equity Offering for an aggregate amount of the equivalent of USD 250 million at the minimum subscription price per share of NOK 7.0/CAD 1.20. However the final pricing per share in the equity placement will be determined through an accelerated book-building process based on a broader marketing of the equity offering.

The Company intends to use the net proceeds from the Offerings towards funding the development of the Kaunisvaara project, including the logistics solution for the transportation of iron ore concentrates from the mine in Kaunisvaara to the Port of Narvik, until it generates positive free cash flow, as well as for the completion of the Hannukainen Definitive Feasibility Study ("DFS"), general corporate purposes and exploration expenditures in Sweden and Finland.