

Northland Resources AB (publ)
Reg. no. 556656-1675

Financial statement and Group accounts for the accounting year 2013

The Board and the CEO hereby submit the annual report and Group financial statement.

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Unless otherwise indicated, all amounts are in SEK thousands. Figures in brackets relate to the previous year.

The English version of the Financial statement and Group accounts for the accounting year 2013 is an informal translation solely for convenience purposes. In case of inconsistencies between the Swedish and the English text, the Swedish text shall prevail.

Directors' report

Company information and general information on the company's activities

The company was founded on 15 January 2004. The company's official address is Datavägen 14, 977 54 Luleå, Sweden.

Northland Resources AB and its subsidiaries are collectively referred to as the Group or Northland. Ultimate parent company of the Group, Northland Resources SA, referred to as NRSA.

The company produces iron ore from its mining operations, and enriches it in Kaunisvaara. The company is also engaged in the production, development and exploration of mines in northern Sweden. The subsidiaries Northland Logistics AB and Northland Logistics AS conduct logistics operations on behalf of the company. The operations consist of the transportation of iron ore concentrate from Kaunisvaara to Narvik port via the transfer station in Pitkäjärvi.

Northland Resources AB has a production facility at the Tapuli open cast mine in Kaunisvaara, Sweden. The company also engages in development and exploration projects in mines in northern Sweden. The first construction phase of the Kaunisvaara project has been completed and commissioning began in November 2012. The company produces high-grade and high-quality iron ore concentrate in Kaunisvaara, where the company has two iron ore deposits containing magnetite ore. Tapuli and Sahavaara. The Company has entered into an agreement; an off-take agreement with three partners for the entire production over the next seven to ten years. The company is also in the process of completing an in-depth feasibility study; a Definitive Feasibility Study (DFS) on the deposit in Pellivuoma, which is 15 km from the production plant in Kaunisvaara.

The company is a wholly owned subsidiary of Northland Sweden AB which, in turn, is 100% owned by the Group parent Northland Resources S.A., which is based in Luxembourg. The Group parent company Northland Resources S.A. (NRSA) is listed on the Oslo Stock Exchange (NAUR) in Norway, and listed in Frankfurt (NPK), Germany and listed on the Nasdaq OMX First North (NAURo) in Sweden. The company was also previously noted on the Toronto Stock Exchange in Canada in 2012 but was de-registered in March 2013. NRSA is a holding company whose activities also include the financing of its operating subsidiaries in Sweden and Finland through its branch in Switzerland.

Significant events in 2013

The reporting period 2013 was an eventful and challenging year for the company and this can be summarized with the following key milestones.

- In the first quarter, the first load of iron ore concentrate was shipped
- In the second quarter, the agreement that secured the re-financing of the company was concluded

- In the third quarter, the first processing line in Kaunisvaara was completed
- During the fourth quarter, the ship loader was commissioned and thus completed the entire logistics chain.

At the end of 2013, with the first "cape size" shipment immediately after the New Year, the company is on track to achieve breakeven in terms of operating cash flow from operating activities adjusted for items not included in cash flow. It must be emphasized that the company's performance was not satisfactory in the fourth quarter. The average daily production volume fell below the planned level, the production was not as reliable and stable as it should have been and the logistics chain did not achieve the necessary capacity, which resulted in unplanned inventory accumulation.

The Company and its subsidiary, Northland Logistics AB, applied for a corporate restructuring 8 February and 12 February 2013. The corporate restructuring was approved on the same days by Luleå District Court. As part of the corporate restructuring, which formally ended 23 August 2013, the Group reached an agreement on new financing. The restructured financing consists of a new bond loan (first lien bond), a new loan from the parent company NRSA, which is a restructuring/replacement of the previous bond loan (second lien bond), restructuring of accounts payable, and restructuring of other inter-company liabilities. The restructuring of accounts payable and other inter-company liabilities, means that these have been renegotiated into long term liabilities.

A detailed description of the restructuring conditions and the impact on the Group can be found in the following paragraphs and the section Net turnover, earnings and financial position.

First lien bond

On 6 June 2013, Northland Resources AB issued a new bond loan equivalent to USD 335 million with first lien and maturity in 2019. The bonds were issued with a 7% discount, whereupon the total liquidity inflow was approximately SEK 2,038 million. The bonds carry 15% annual payment in kind interest (meaning that payment is made through the interest rate increasing the bond loan) until 15 July 2015, 15% annual cash interest with a pay if you can proviso during the period from 16 June 2015 to and including 15 June 2016, and thereafter 15% annual cash interest from 16 July 2016. The new borrowings were issued with subscription warrants representing 50% of the pro forma equity after the restructuring of the NRSA Group.

Second lien bond

In accordance with the bond agreement dated 5 March 2012 and 19 December 2012, the Company issued five-year bonds equivalent to USD 370 million. Following approval of the existing bondholders and the NRSA's Extraordinary General Meeting, the existing loan equivalent to USD 370 million was taken over by the NRSA on 31 July 2013. The conditions were changed to being mandatorily convertible into NRSA shares.

Although NRSA assumed the obligations to the holders of the convertible loan, in accordance with the restructuring organisation plan and an agreement between the Company and NRSA, the Company has the same obligations to the NRSA as NRSA has to the holders of the convertible loan.

Restructured accounts payable

After the creditors' approval of the restructuring plan, which was approved by the Luleå District Court 12 July 2013, the previously renegotiated accounts payable, corresponding to SEK 1216 million including VAT, were executed to interest-bearing supplier credit with a payment plan and the final payment on 15 July 2020 for PEAB and Metso and 15 January 2017 for other supplier. The interest-bearing supplier credit will carry 4% annual interest accrued from February 2013. Repayment of the principal shall be made in equal semi-annual payments, commencing in July 2015, on condition that cash may only be paid to creditors in the first lien bond. All payments are subject to access to free cash equivalents as defined in the agreement. In the Group's balance sheet, these liabilities are valued in accordance with IFRS rules for financial instruments; see note 13.

Other restructured inter-company liabilities

As part of the overall restructuring plan, loans to subsidiaries within the NRSA Group of SEK 2,132 million and accounts payable to Group companies within the NRSA Group of SEK 157 million have been renegotiated to interest-bearing credit (including VAT and accrued interest on arrears). The credit shall fall due and is payable on 30 June 2031 for the loan component corresponding to the original maturity, and 31 December 2020 for the accounts payable component. The credit bears annual interest of 4% from February 2013. All payments are subject to access to free cash equivalents as defined in the agreement. In the Group's balance sheet, these liabilities are valued in accordance with IFRS rules for financial instruments; see note 13.

Net turnover, earnings and financial position

In 2010, Northland entered into an agreement (the off-take agreement) for the entire planned annual production of 4.4 million tonnes (dry metric tonnes) of iron ore concentrate with three established global commodity companies with up to 10 years maturity. The first shipment of iron ore concentrate to customers took place during the first quarter of 2013 and thereby generated the first sales revenue.

Net turnover for the period totalled SEK 637.7 million. Fifteen shipments with a total of approx. 849 thousand dry metric tonnes, DMT (approx. 910 thousand wet metric tonnes, WMT) of iron ore concentrate was shipped to end customers during the year; thirteen to

Europe and two beyond. The first cape size shipment, with a load of approx. 165 thousand WMT, was shipped to a customer in the Middle East on 30 December. The sales were distributed between customers as below.

		2013	2012
Standard Bank Plc	Storbritannien	30.7%	-
Stemcor	Storbritannien	34.7%	-
Tata Steel	Singapore	34.6%	-
		<u>100%</u>	<u>-</u>

The operating result for the Group amounted to -SEK 1,221 million (-290). Sales costs increased significantly from the previous year due to production start. In the previous year the costs consisted of start-up costs before production start. Administration costs have greatly increased primarily due to costs associated with the restructuring. In the Other post, operating costs include impairment of ongoing construction corresponding to activated internal interest rates; SEK 359 million (SEK 0). Net financial items for the Group amounted to SEK 2,584 million (69). The great expense is attributed to the restructured financing, as described below. It may also be mentioned that the net financial items are negatively affected by the foreign exchange losses of MSEK -63 (114), banking and interest costs of SEK -309 million (-53) and positively as a result of changes from the evaluation of internal loans of SEK 54 million (0). See additional specifications in notes 11, 12 and 13. As a consequence of the company restructuring and the new financing, the Group's results have been positively affected by one-off effects as follows:

	<u>Thousands of SEK</u>
Initial reporting of renegotiated terms second lien bond	228,200
Expensed transaction costs related to the original bond loan	-117,031
Initial reporting of renegotiated terms accounts payable	606,284
Initial reporting of renegotiated terms Group internal liabilities	<u>2,181,753</u>
	<u>2,899,206</u>

The one-off effects are a consequence of the significantly changed conditions on loans and accounts payable which, in accordance with IAS 39, are considered new loans which must be recorded at fair value at the same time as the old loans are considered redeemed. In determining the fair value of the new loan, the Group's estimated borrowing costs of 17 - 25% have been used depending on the loan type and term. The restructuring has not resulted in a cancellation of debts by creditors. The disposable income of SEK 2,899 million recognized in 2013 and which had no effect on cash flow will, in future, be matched by

higher financial costs.

There will be no revaluation of liabilities and no time effect on the parent company which follows RFR 2 and does not apply IAS 39.

As at 31 December 2013, the Group's interest-bearing current and fixed liabilities amounted to SEK 4,931,092 thousand (4,515,640). The large increase in the past two years is due to the intensive investment programme in the Kaunisvaara project. Amount in thousands of SEK.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
First lien bond	1,738,028	-	-
Second lien bond	-	2,304,713	-
Restructured accounts payable	669,200	-	-
Liabilities to Group companies	2,395,951	2,069,375	150
Financial leasing	<u>127,913</u>	<u>141,552</u>	<u>-</u>
	4,931,092	4,515,640	150

Equity amounted to SEK 2,998,976 thousand (1,503,664) and the balance sheet total of SEK 8,754,518 thousand (7,316,211). At year end, the Group's solvency was 34% (20%) calculated as a ratio of equity in relation to total capital (total assets).

A summary of net turnover, earnings and the financial position of the Group is set out in the table below (amounts in KSEK unless otherwise stated):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net turnover	637,714	-	-
Operating result	-1,220,900	-289,552	-63,360
Result after financial items	1,363,077	-220,206	-117,469
Annual result	1,144,797	-220,206	-117,469
Equity	2,998,976	1,503,664	1,725,003
Balance sheet total	8,754,518	7,316,211	2,369,635
Solvency,%	34%	20%	73%

During the second half of 2013, the Group suffered a production loss and, in combination with the inventory accumulation in the fourth quarter and further negative developments during the first quarter of 2014, the liquidity situation remains strained. To ensure that the Group maintains its financial and operational flexibility and not experience a liquidity shortage in 2014 due to spikes in working capital, negative developments in iron ore prices and exchange rates, capital spending increases or additional production losses, the Board of Directors decided, in November 2013, to seek additional financing of up to approximately USD 150 million.

Cash flow and investments

The consolidated cash flow from ongoing activities before investments amounted to SEK -733,609 thousand (-15,966). The change in working capital during the year was negative at SEK -311,723 thousand (279,668) due to increased accounts receivable and inventories, and decreased current liabilities. The cash outflow from investment activities amounted to SEK 1,664,865 thousand (3,719,117) which was especially financed with cash inflow from the inclusion of the new bond loan (first lien bond) SEK 1,912,527 (second lien bond 2,621,315). Cash and cash equivalents increased to SEK 259,254 thousand (201,623).

Group investments amounted to SEK 2,388,824 thousand (4,527,975). Investments have remained high because of the intensive phase of the Kaunisvaara project with the mining facility at the Tapuli deposit in Kaunisvaara, the transshipment terminal in Pitkäjärvi and the plant at Narvik port.

Below is an overview of the year's investments and write-offs (all amounts in TSEK):

	<u>2013</u>	<u>2012</u>
<u>Intangible fixed assets</u>		
Exploration	14,313	16,176
<u>Tangible fixed assets</u>		
Land and buildings	38	1,371
Machinery and other technical plant	13,409	89,141
Construction in progress		
- Kaunisvaara site	1,605,572	3,286,872
- Pitkäjärvi transshipment station	138,787	309,089
- Narvik port	616,705	825,326
Total depreciation, TSEK	356,270	29,577

Environment and activities requiring a permit

Environment

Northland strives to develop its mining projects in cooperation with the local community and to contribute to sustainable socio-economic development in the areas in which it operates. The company's environmental commitments are documented in a policy on sustainable development, which was prepared in line with international standard guidelines (e.g. ISO 14001 and OHSAS 18001).

The Kaunisvaara area and Tapuli mine are located in a region with large wetlands, which largely consist of land with little or no previous human impact. To protect the biodiversity during the expansion of the mining area in Tapuli, in 2012 Northland started a project to develop and implement ecological compensation. The project aims to improve the living environment and strengthen the flora that deserves particular protection in the Pajala region, focusing on five specific species; four vascular plants and a moss.

Northland is also in dialogue with the Pajala County Board and Kiruna Municipality, as well as with the Swedish Transport Administration, in order to discuss issues related to the road dust caused by the transportation of iron ore concentrate.

There are no environmental problems reported in 2013. The company's monitoring system has reported four minor environmental incidents, such as minor oil spills from construction equipment. Northland has procedures in place to properly take care of contaminated material.

Licences

Efforts to obtain an environmental permit for the expansion of the Kaunisvaara project, including the Sahavaara mine are ongoing. Northland has submitted several reports to the Land and Environmental Courts and the County Administrative Board in 2013, and in September 2013 the second oral report was held (the first was held in April 2012). At this report, a number of complex issues were reported to Northland by the Land and Environmental Courts and the County Administration. The complexity and the increased issues have meant that the date for the submission of the expanded documentation has been advanced to 17 March 2014. As a consequence of this, the Land and Environmental Court postponed the main hearing regarding the permit issue until 15 September 2014.

A new application for a mining concession (Tapuli K no. 3), adjacent to the existing Tapuli K no. 1, which refers to the southern extension of the Tapuli open pit is in the final stages of completion. The work on the application started in 2012, was suspended during the restructuring period, started again in the fourth quarter of 2013, and is expected to be completed during the first half of 2014.

Risks and uncertainties

Continued operations (Going Concern)

The Group and its Group-parent company identified funding and liquidity shortages in the Kaunisvaara project at the end of 2012, which led to the Swedish subsidiaries applying for restructuring. The restructuring of the company lasted from 8 February 2013 to 23 August 2013, when the restructuring was formally completely, in accordance with the court's decision. In late May 2013, Northland successfully completed the drawing down of a bond offering of USD 335 million. The new long-term bonds have first lien, while the bond loan issued in 2012 after the restructuring has a subordinated lien with an obligatory conversion

into equity no later than 2016. As at 31 December, the Group has made three payouts from the bond loan, corresponding to USD 335 million, and all funds have been released to Northland.

During the second half of 2013, the Group had a production deficit in comparison with the schedule, and combined with higher than expected inventory levels in the fourth quarter and further adverse developments due to severe cold/freezing and lost production in early 2014 the liquidity situation has become critical. To ensure that the Group maintains its financial and operational flexibility and in order to reduce the risk of a liquidity shortage in 2014 due to spikes in working capital, negative changes in iron ore prices and exchange rates, increases in spending, disruptions and delays in the production, the Board decided in November 2013 to seek additional financing of approximately USD 150 million. In the restructuring plan and the agreement regarding the bond loan, equivalent to USD 335 million, Northland identified a number of potential additional sources of funding which, if realized, would contribute to the required liquidity buffer. These sources include additional finance lease agreements for equipment, prepayment agreements for customers and an expanded bond loan of up to USD 50 million and a proposed share issue of up to USD 50 million. On 31 January, the Company signed an agreement for a total value of USD 25 million with a large Scandinavian bank regarding the leasing of mobile mining equipment, which was delivered to the company in 2013 and 2014. It should, however, be noted that this amount was already taken into account in the calculation of the need for additional financing of approximately USD 150 million.

The company is dependent on short-term liquidity by deferring payments to suppliers or other financing sources. As regards the above financing sources, Northland believes that USD 85 million will be realized in the coming months through additional lease agreements for equipment (USD 25 million) and arrangements for advance payments and bridge financing (USD 60 million). See Note 40 for more information. Because of the increasing liquidity stress, the Group, in unison with its financial advisors, decided to accelerate the financing and intends to present a long-term solution in the latter part of 2014. This will take place after discussions with current and potential investors. Such financing proposals may consist of the issuance of new bonds, new rights in NRSA and the conversion of parts of existing bonds and supplier liabilities to equity. These proposals are subject to approval by bondholders and shareholders. See Note 40 for more information.

Group management and the Board believe that additional financing can be secured from the sources identified above. It is estimated that it will take 3 to 6 months to acquire financing from new long-term funding sources. Meanwhile, the Group plans to manage the short-term financing needs through extended periods of credit to certain suppliers, concluding leases for mobile mining equipment and by entering into new short-term financing solutions. The long-term financing is dependent on the Group's ability to attract sufficient financing and approval from both bondholders and shareholders. If this planned financing does not materialize or is delayed, it may affect the Group's ability to continue as a going concern, which in turn could lead to the Group being unable to realize its receivables and pay its debts in the normal course of business. The Board has considered these facts and circumstances, and decided to set up the Group and parent company's financial statements as at 31 December 2013 in accordance with the going concern principle.

The restructuring plan that was developed in conjunction with the corporate restructuring of Northland Sweden AB, Northland Resources AB and Northland Logistics AB and the accord Luleå District Court stipulated on 12 July 2013 shows that companies in the Group have a number of obligations that include payment to creditors in accordance with the established accord and limitations on operational and financial changes in the companies. In the event that the Group company is unable to fulfil its obligations relating to the restructuring plan, the agreements entered into in connection with specified restructuring plan and the established accord, Luleå District Court may, upon the request of an interested creditor, terminate the accord, which in turn implies that an amount of SEK 1,236 million of long-term debt may fall due for immediate payment. The book value of the Group is SEK 669 million.

Production risks

The company operates a new processing plant for iron ore concentrate in Kaunisvaara. After the start of operations in November 2012, the company can still experience practical and technical problems in the process, in the further fine-tuning of the process plant or in the application of process technology to the iron ore concentrate. Operational stoppages due to technical problems or otherwise may significantly increase production costs. If the company cannot effectively process the iron ore to iron ore concentrate in a cost effective manner and with the quality expected and required by the Company's off-take agreements, it can greatly adversely affect the marketability of the product and the company can risk not being able to realize the expected premium or may even be forced to apply the discount rates which could significantly and adversely affect the business, operating results, contractual commitments under various delivery contracts and the Company's financial position or outlook.

Financial risk factors

The main risks that could have a negative impact on the Group's assets, liabilities or future cash flows are commodity price risks, currency risks and liquidity risks. The Board reviews and agrees on policies for managing the risks summarized below.

The Group's management, in unison with the audit committee of the Group parent NRSA, assesses the financial risks. Risky activities shall be governed by appropriate policies and procedures and financial risks shall be identified, measured and managed in accordance with the Group's policies and the Group's risk appetite.

Market risks

Market risk is the risk that the fair value of future cash flows will fluctuate because of market price changes. Market prices involve two types of risk - commodity price risk and currency risk.

Commodity price risk

The market price of iron ore concentrate is dynamic and cannot be controlled. There is no guarantee that a profitable market will continue for future production or sale of iron ore concentrate.

Currency exchange risk

The Group is exposed to currency risk due to its sales revenues being in USD and most of the costs in SEK. The Group's borrowing is also exposed to currency risk as it is largely in USD, EUR and NOK and because of the conversion of the subsidiary Northland Logistics AS's financial statement, which is included in the Group. The Group monitors this exposure, but had no hedge position as at 31 December 2013.

Based on 2013 revenues, the sensitivity analysis shows that a change of +/- 10 percent of SEK against USD shall result in an annual effect on operating income of SEK +/- 64 million.

Based on the financial position as at 31 December 2013, the sensitivity analysis shows that a change of +/- 10% in USD against other currencies will have an effect of +/- SEK 435 million on net financial items, of which SEK 243 million relates to increases in the liabilities of companies in the Northland Resources Group.

Based on Northland Logistics AS's financial statement in 2013, the sensitivity analysis shows that a change of +/- 10% to SEK against NOK will have an effect of +/- SEK 4 million on consolidated earnings.

Liquidity risk

Liquidity risk includes the risk that Northland is unable to manage its financial liabilities when they fall due. The company started production in the last quarter of 2012 and has generated revenue since the first quarter of 2013.

Northland monitors and evaluates its liquidity management with periodic cash flow projections and budget controls to ensure that it has sufficient cash to meet its operational needs while maintaining sufficient room for its unused credit facilities at all times so that the Group does not exceed borrowing limits or loan conditions (where applicable). Such projections take into consideration the Group's debt financing plans, compliance with loan conditions, compliance with internal ratios in the balance sheet and, if applicable, external regulatory or legal requirements.

For more information on the requirements of the restructuring plan's settlement and a description of the financing requirements, see the Going concern section above.

Surplus cash held by Northland in addition to the balance required for the management of working capital shall be invested in short term deposits. As at the balance sheet date, Northland had a cash balance of SEK 259,254 thousand (SEK 201,623 thousand). The group identified a liquidity shortage in late 2012 which prompted the restructuring of the company in 2013.

The settlement with the Group's creditors in the restructuring during the year involved an agreement that the Group must have sufficient funds. Creditors with capital loans up to SEK 2,600,000 shall receive an amount equivalent to the capital loan by 31 December 2013. The Group fulfilled this condition with the exception of one creditor, who was paid on 13 January

2014 due to a misunderstanding with the classification of the creditor's capital loan. According to the statement, outstanding creditor capital loans above SEK 2,600,000 shall be payable on the basis of accessible free cash flow, defined according to the reorganization plan. Creditor's loans are categorized as below:

- A. Capital loans Peab/Metso
- B. Capital loans other
- C. Bond receivables inter-company
- D. Inter-company other
- E. Equity

Accessible cash flow shall be mainly used to pay interest on debts in categories A to C according to the rates established in the restructuring plan. Amortization of debt in categories A and B occur in equal tranches, ten for Peab and Metso and four for other outstanding capital loans. Loans in a particular category bestow equal rights in proportion to the size of each loan. The same applies to the loans in various categories when the various categories have equal rights. Below is shown schematically how the accessible cash flow is distributed upon the various maturity dates. The figures in the table show the ranking upon the respective payment date.

	2015-07-15	2016-01-15	2016-07-15 2017-01-15	2017-07-15 2020-07-15	2020-10-15
A. Capital loans Peab/Metso					
Previous unpaid interest rate	-	-	1	1	-
Previous unpaid repayments	-	-	2	2	-
Interest rate	-	3	3	3	-
Repayments	-	4	4	4	-
B. Capital loans other					
Previous unpaid interest rate	-	1	1	-	-
Previous unpaid repayments	-	2	2	-	-
Interest rate	1	3	3	-	-
Repayments	2	4	4	-	-
C. Bond receivables inter-company					
Previous unpaid interest rate	-	-	-	-	1
Previous unpaid repayments	-	-	-	-	2
Interest rate	-	3	3	3	1
Repayments	-	-	-	-	2
D. Inter-company other					
Interest rate and repayments	3	5	5	5	3
E. Equity					
Dividends	-	-	-	-	4

Credit risk

The Group believes that the following financial assets are exposed to credit risk: accounts receivable, cash and cash equivalents, accrued interest income and short-and long-term investments. Credit risk is the risk that one party to a financial instrument fails to meet a commitment, thus causing the other party a financial loss.

The Group seeks to place its cash equivalents with reputable financial institutions. As a result, the Group believes that it is exposed to relatively low credit risk at the moment, although the current turmoil surrounding all financial institutions globally has increased the risk of a credit collapse of a major financial institution affecting the Group. As the production and sales of the Group's iron ore concentrate commences, the Group's credit risk will gradually increase.

The Company has concluded Off-take agreements for the entire planned production volume of 4.4 million dry tons with three global, well established and solid partners with contract terms of up to ten years. Under these agreements, 20% of the volume shall be sold to Stemcor UK Ltd and to Tata Steel UK respectively and the balance of 60% to Standard Bank Plc. Invoicing normally takes place after a shipment sails from Narvik port. Payment terms vary due to everything from prompt payment upon invoicing for up to two months' credit.

The maximum exposure to credit risk as at the reporting date is the carrying value of all items in current receivables, cash and other long-term receivables.

Capital management

Within the next few years, the Group's capital management will be mainly regulated in the financing and reorganization agreement that the Group entered into during the year. During which time it is management's aim to improve the Group's long-term funding and solvency.

Others uncertainties

The FSA has pursued an ongoing supervisory issue with Northland Resources AB regarding the reviewing of periodic financial information, which at the beginning of April 2014 has become the subject of proceedings for intervention in accordance with chapter 25, Articles 18-23 of the Securities Market Act. Northland Resources AB has not received prior information from the authority on what the results of this trial may be.

Corporate governance

The provisions in the Articles of Association concerning the appointment and dismissal of directors and changes to the Articles of Association

The Board is elected at the AGM and, in accordance with the articles of association; the Board must consist of three to seven members and a maximum of five deputies. Changes to Northland Resources AB's articles of association shall be adopted by the AGM in accordance with the provisions of the Companies Act.

Direct and indirect shareholdings in the company and how many votes a shareholder may cast at the AGM

Northland Resources AB has a share capital of SEK 500,000 distributed as 5000 shares and the same number of votes. At the AGM, each share carries one vote and each shareholder is entitled to vote with their full number of shares. Northland Resources AB is part of the Northland Group and at year-end Northland Sweden AB was the sole shareholder.

Authorisation of the Board of Directors to decide to issue new shares or to acquire the company's shares

The AGM has not authorized the Board of Directors to decide to issue new shares. As Northland Sweden AB owns all of the shares, it is not possible to acquire the company's shares.

The key elements of the Company's system for internal control and risk management in financial reporting

The purpose of the internal control of the financial reporting is to provide reasonable assurance regarding the achievement of the company's objectives regarding the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with generally accepted accounting standards, applicable laws and regulations. As a wholly owned subsidiary of Northland Group Northland Resources AB is covered by the internal control and risk management carried out at Group level.

The Board has defined rules of procedure that govern the Board's responsibilities and how the Board's activities must be carried out. In order to maintain an effective control environment and effective internal control, the Board has delegated the practical responsibility to the CEO, and defined instructions for the CEO which stipulates, among other things, the division of responsibilities between the Board and the CEO. According to the CEO's instructions, the CEO must ensure that the Board regularly receives the information required to monitor the company's business conditions, forecasts and economic and financial status. The information must be presented at each regular Board meeting. The Board has appointed an audit committee.

To ensure the quality of the financial reporting, Northland Resources AB applies a number of internal policy documents including, inter alia, decision and authorisation instructions and a financial manual that contains fiscal policy and accounting and reporting instructions. Furthermore, various types of control activities regarding the Company's accounting and reporting processes are carried out. They are designed to manage known risks and detect and correct any errors and discrepancies in the

financial reporting. Northland carries out ongoing risk analyses of the financial reporting. Any identified deficiencies in the internal control and risk management are documented, analysed and acted upon.

Significant events after the accounting year's end

For more information, please refer to note 40.

Proposed distribution of profits

The following profits are at the disposal of the AGM:

Balanced earnings	1,435,655
Losses for the year	-1,425,955
	9,700

The board of directors proposes that profits be allocated as follows:

to be carried over	9,700
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The results of the Group's and Company's operations and financial position at year-end can be seen in the following income statements and balance sheets with notes.

Group profit and loss account	Note	2013	2012
Amount in SEK '000			
Net turnover	39	637,714	-
Costs for goods sold	3.4	-1,238,202	-162,909
Gross result		-600,488	-162,909
Administration costs	3, 6, 7	-266,686	-126,010
Impairment of fixed assets	16,20	-359,432	-633
Other revenue		5,706	-
Operating result	5, 8, 9	-1,220,900	-289,552
Result from financial items			
Other interest receivables and similar profit/loss items	5, 11	56,226	121,852
Interest costs and similar profit/loss items	5, 12	-371,455	-52,506
Impact of restructured financing	13	2,899,206	-
Total result from financial items		2,583,977	69,346
Result after financial items		1,363,077	-220,206
The year's tax costs	14	-218,280	-
Annual result		1,144,797	-220,206
<u>Profit for the year attributable to:</u>			
- the parent company's shareholders		1,144,797	-220,206
The Group's statement of total income			
Annual result		1,144 797	-220,206
<u>Items that may be reclassified to the income statement:</u>			
- The year's foreign currency conversion differences		-3,843	-1,135
Total income for the year		1,140,954	-221,341
<u>Result for the year attributable to:</u>			
- the parent company's shareholders		1,140,954	-221,341

Group balance sheet	Note	2013	2012
Amount in SEK '000			
Assets			
Fixed assets			
<u>Intangible fixed assets</u>	39		
Capitalized software costs	15	-	1
Exploration and evaluation assets	16	116,272	102,662
		116,272	102,663
 <u>Tangible fixed assets</u>	21, 39		
Land and buildings	17	1,948,344	487,977
Mining assets	17	535,251	493,223
Machinery and equipment	18	3,565,217	323,373
Machinery with financial leasing	19	167,991	183,890
Construction in progress regarding tangible fixed assets	20	1,458,620	4,661,001
		7,675,423	6,149,464
 <u>Financial fixed assets</u>			
Shares in associated companies		23	22
Other long-term receivables	22, 23	98,782	301,308
		98,805	301,330
 Total fixed assets		7,890,500	6,553,457
 Current assets			
Inventories	24	96,072	38,621
 <u>Current receivables</u>	22		
Accounts receivable	38	169,837	-
Receivables of Group companies	5	-	581
Other current receivables	25	235,237	434,262
Prepaid costs and accrued revenue	26	103,618	87,667
		604,764	522,510
 Cash and bank	22, 27	259,254	201,623
 Total current assets		864,018	762,754
 Total assets		8,754,518	7,316,211

Equity and liabilities		2013	2012
Equity			
Share capital		500	500
Other contributed capital		2,317,486	1,963,128
Conversion reserve		-4,977	-1,134
Balanced result		685,967	-458,830
Total equity		2,998,976	1,503,664
Provisions			
Provisions for restoration costs	28	242,908	187,374
Deferred tax liability	29	217,989	-
Total provisions		460,897	187,374
Long-term liabilities			
	22.30		
Bond loans	31	1,738,028	2,304,713
Liabilities in respect of finance leased assets	32	102,810	116,867
Liabilities to Group companies	5	2,395,951	2,069,375
Other long-term liabilities	33	669,200	49,100
Total long-term liabilities		4,905,989	4,540,055
Current liabilities			
	22.30		
Liabilities in respect of finance leased assets	32	25,103	24,685
Accounts payable		255,023	809,552
Liabilities to Group companies	5	12,977	136,990
Other current liabilities		56,161	3,219
Accrued costs and prepaid income	34	39,392	110,672
Total current liabilities		388,656	1,085,118
Total equity and liabilities		8,754,518	7,316,211
Pledged securities			
	35	4,181,551	2,968,007
Contingent liabilities	36	2,468,328	None

The Group's equity changes

	Amount in SEK '000	Share capital	Other contributed capital	Conversion reserve	Balanced result	Total equity
Equity 01/01/2004	500	1,963,128	1	-238,624	1,725,005	
Annual result	-	-	-	-220,206	-220,206	
Other total result	-	-	-1,135	-	-1,135	
Total income for the year	-	-	-1,135	-220,206	-221,341	
Equity 01/01/2004	500	1,963,128	-1,134	-458,830	1,503,664	
Annual result	-	-	-	1,144,797	1,144,797	
Other total result	-	-	-3,843	-	-3,843	
Total income for the year	-	-	-3,843	1,144,797	1,140,954	
Shareholders' contribution, see note						
13 first lien bond	-	354,358	-	-	354,358	
Equity 31/12/2004	500	2,317,486	-4,977	685,967	2,998,976	

The share capital consists of 5,000 shares with a quota value of SEK 100 per share.

Compared with the year 2012, TSEK 1,963,128, equivalent to capital received, has been reclassified as Other paid in capital from retained earnings.

Conversion reserve

Conversion reserves are attributable to the conversion of foreign subsidiary loans in foreign currency.

Group cash flow statement	2013	2012
Amount in SEK '000		
Current operations		
Result after financial items	1,363,076	-220,206
Adjustments for non-cash flow items		
Depreciation	356,271	28,282
Adjustment of financial liabilities at fair value	-2,899,206	-
Unpaid interest and costs related to financial liabilities	291,647	-
Disposals and amortization of fixed assets	369,680	1,345
Interest received	-867	-3,347
Interest paid	34,198	12,147
Exchange rate differences	62,574	-113,855
Other adjustments not affecting cash flow	741	-
	-421,886	-295,634
Inventory changes	-61,362	-5,525
Change in trade receivables	-169,837	-
Change in other current receivables	-31,142	-16,044
Changes in accounts payable	-49,382	301,237
Cashflow from current activities	-733,609	-15,966
Investment activities		
Investments in development and exploration projects	-14,313	-16,090
Investments in tangible fixed assets	-1,651,419	-3,707,322
Tangible fixed assets sold	-	968
Interest received	867	3,347
Increase/decrease in short term investments	-	-20
Cash flow from investment activities	-1,664,865	-3,719,117
Financing activities		
Loans raised	2,279,904	2,621,315
Prepayments for raising loans	-125,384	-199,994
Amortization of liabilities	-46,284	-4,706
Change in restricted cash and equivalents	396,516	-352,248
Changes to loans from Group companies	10,000	1,749,831
Interest paid	-34,198	-12,147
Cash flow from financing activities	2 480 554	3,802,051
Cash flow for the year	82,080	66,968
Cash and cash equivalents at the beginning of the year	201,623	153,868
Conversion differentials in cash and cash equivalents	-24,449	-19,213
Cash and cash equivalents at year end	259,254	201,623
Total interest received as well the portion that reduced capitalized cost interest and the portion accrued is SEK 1,886 thousand (7,783). Total interest paid, both the portion capitalised and the portion expensed is SEK 165,656 thousand (155,991). The comparative figures in previous years have been restated for better comparison.		

The parent company's income statement	Note	2013	2012
Amount in SEK '000			
Net turnover		637,714	-
Costs for goods sold	3,4	-1,342,224	-110,746
Gross result		-704,509	-110,746
Administrative costs	3, 6, 7	-249,384	-105,777
Other operating costs	16	-703	-581
Other revenue		5,706	-
Operating result	5, 8, 9	-948,890	-217,104
Result from financial items			
Profit/loss from shares in Group companies	10	-	-10,759
Other interest receivables and similar profit/loss items	5,11	151,874	185,845
Interest costs and similar profit/loss items	5,12	-511,908	-572,714
Impact of restructured financing	13	-117,031	-
Total result from financial items		-477,065	-397,628
Annual result		-1,425,955	-614,732
The parent company's statement of total income			
Annual result		-1,425,955	-614,732
Total income for the year		-1,425,955	-614,732

The parent company's balance sheet	Note	31/12/2013	31/12/2012
Amount in SEK '000			
Assets			
Fixed assets			
<u>Intangible fixed assets</u>			
Capitalized software costs	15	-	1
Exploration and evaluation assets	16	116,272	102,662
		116,272	102,663
<u>Tangible fixed assets</u>	21		
Land and buildings	17	899,029	487,977
Mining assets	17	523,295	493,223
Machinery and equipment	18	2,343,743	323,373
Machinery with financial leasing	19	164,146	179,552
Work in progress and prepayments for property, plant and equipment	20	1,245,523	2,738,610
		5,175,736	4,222,735
<u>Financial fixed assets</u>			
Shares in Group companies	37	128,329	128,329
Receivables of Group companies	5	1,787,456	1,100,788
Shares in associated companies		23	23
Other long-term receivables	22, 23	98,782	301,309
		2,014,590	1,530,449
Total fixed assets		7,306,598	5,855,847
Current assets			
<u>Inventories etc.</u>			
Commodities and consumables	24	95,762	38,621
<u>Current receivables</u>	22		
Accounts receivable	38	169,837	-
Receivables of Group companies	5	93,426	593
Other current receivables	25	221,596	387,232
Prepaid costs and accrued revenue	26	35,553	41,514
		520,412	429,339
Cash and bank	22, 27	225,508	184,963
Total current assets		841,682	652,923
Total assets		8,148,280	6,508,770

The parent company's balance sheet	Note	31/12/2013	31/12/2012
Amount in SEK '000			
Equity and liabilities			
Equity			
<u>Restricted equity</u>			
Share capital		500	500
<u>Unrestricted equity</u>			
Balanced result		1,435,655	1,696,029
Losses for the year		-1,425,955	-614,732
		9,700	1,081,297
Total equity		10,200	1,081,797
Provisions			
Provisions for restoration costs	28	30,111	-
Long-term liabilities	22, 30		
Bond loans	31	1,738,028	2,304,713
Liabilities in respect of finance leased assets	32	102,810	116,867
Liabilities to Group companies	5	4,811,389	2,069,375
Other long-term liabilities	33	1,050,541	49,100
Total long-term liabilities		7,702,768	4,540,055
Current liabilities	22, 30		
Liabilities in respect of finance leased assets	32	25,103	24,685
Accounts payable		143,728	627,391
Liabilities to Group companies	5	187,442	121,050
Other current liabilities		9,805	3,219
Accrued costs and prepaid income	34	39,123	110,573
Total current liabilities		405,201	886,918
Total equity and liabilities		8,148,280	6,508,770
Pledged securities	35	3,957,385	2,828,063
Contingent liabilities	36	2,468,328	None

The parent company's equity changes

Amount in SEK '000	Share capital	Balanced result	Total equity
Equity 01/01/2012	500	1 696 029	1 696 529
Annual result	-	-614,732	-614,732
Other total result	-	-	-
Total income for the year	-	-614,732	-614,732
Equity 31/12/2012	500	1 081 297	1 081 797
Annual result	-	-1 425 955	-1 425 955
Total income for the year	-	-1 425 955	-1 425 955
Shareholders' contributions	-	354,358	354,358
Equity 31/12/2013	500	9,700	10,200

The share capital consists of 5,000 shares with a quota value of SEK 100 per share.

Parent company's cash flow analysis	2013	2012
Amount in SEK '000		
Current operations		
Result after financial items	-1,425,952	-614,732
Adjustments for non-cash flow items etc.		
Depreciation	283,912	27,894
Impairment of fixed assets	703	581
Interest received	-1,660	-7,783
Interest paid	165,363	155,991
Exchange rate differences	-52,951	-112,423
Unpaid interest and costs related to financial liabilities	491,569	
Other adjustments not affecting cash flow	30,825	
	-508,191	-550,472
Inventory changes	-61,052	-5,525
Change in trade receivables	-169,837	
Change in other current receivables	-113,195	-44,355
Changes in accounts payable	-354	432,993
Cash flow from current activities	-852,629	-167,359
Investment activities		
Investments in development and exploration projects	-14,313	-16,167
Investments in tangible fixed assets	-851,206	-2,443,107
Tangible fixed assets sold	-	42,230
Submitted shareholder contributions	-	-126,721
Changes to loans to Group companies	-523,469	
Interest received	1,660	7,783
Cash flow from investment activities	-1,387,328	-2,535,982
Financing activities		
Loans raised	2,245,380	2,621,315
Prepayments for raising loans	-125,384	-160,829
Amortization of liabilities	-46,284	-4,706
Change in restricted cash and equivalents	396,515	-352,248
Changes to loans from Group companies	10,000	809,861
Interest paid	-165,363	-155,991
Cash flow from financing activities	2,314,864	2,757,402
Cash flow for the year	74,907	54,061
Cash and cash equivalents at the beginning of the year	184,963	147,997
Conversion differentials in cash and cash equivalents	-34,362	-17,095
Cash and cash equivalents at year end	225,508	184,963

Total interest received is SEK 1,660 thousand (7,783). Total interest paid SEK 165,363 thousand (155,991). The comparative figures in previous years have been restated for better comparison.

Accounting principles and notes

Note 1 General information on the company, the accounting principles applied and significant judgements, estimates and assumptions

Northland Resources AB, corporate no. 556656-1675 is a limited liability company registered in Sweden. The company is based in Lulea. Northland Resources AB is 100% owned by Northland Sweden AB, corporate no. 556767-8254, which in turn is 100% owned by the Group parent Northland Resources SA, registration number 23 912 066, with registered offices in Luxembourg.

The Group financial statements have been prepared with the EU-approved International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Furthermore, the Group also applies the Swedish Financial Accounting Standards Council's recommendation RFR 1 "Supplementary Group Accounting" which specifies the additional IFRS information required in accordance with the Annual Accounts Act.

The Group financial statements are based on historical acquisition value, except in cases where some of the Group's financial instruments require valuation at fair value in accordance with IAS 39. The Group financial statements include the parent company and the subsidiaries over which the parent company directly or indirectly exercises a controlling influence. The subsidiaries were started by Northland. For more information, please refer to note 37.

Regarding financial risks and risk management, please see pages 10 - 13 of the Directors' report.

The parent company's financial statements are prepared in accordance with the Annual Accounts Act and the Financial Reporting Board's recommendation RFR 2 "Accounting for Legal Entities". The accounting principles of the parent company largely correspond to the Group's accounting principles, with the exception of:

- The parent company does not apply IAS 39 to accounting for financial instruments, but rather applies a method based on acquisition value in accordance with the Annual Accounts Act. It follows that changes made to the loan terms of liabilities do not trigger a revaluation of the liabilities and that positive one-off effects do not occur.
- Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to complete, are not included in the asset's acquisition value.
- Estimated restoration costs are gradually reserved by the parent company during the useful lifetime as the Group's policy of immediate provision of corresponding capitalization as a tangible asset is considered an obstacle to tax deductibility.

The accounting principle for restoration costs in the parent company has been changed from, and including 2013, and the comparative figures for 2012 have been amended in accordance with the new policy. Previously, the same principle used in the Group was applied. The restructuring of 2012 did not affect reported earnings or shareholders' equity. In the balance sheet, compared with previously published data for the parent company, the following amounts 2012-12-31 have been changed.

	New Principle	Previous Principle
Construction In Progress	2,738,610	2,925,984
Provision for Restoration Costs	-	-187,374

The parent company's operating currency is SEK, which is also the reporting currency of the Group and the parent company. Unless otherwise stated, all amounts in the financial statements are presented in thousands of SEK.

The annual accounts have been prepared in accordance with the going concern principle and authorised for issue by the Board on April 2014. The balance sheets and income statements will be determined by the AGM.

The most significant accounting principles adopted are described below. These principles have been consistently applied to the years presented, unless otherwise stated. Presentation of new/revised accounting principles due to new standards and/or interpretations that have been applied for the first time during the 2013 accounting period are described on pages 43-45, while standards and/or interpretations to be applied in the coming years are described on page 45.

Conversion of foreign currencies

The consolidated financial statements are presented in SEK. Each entity in the Group determines its own operational currency, and the accounting entries in each entity's financial statements are measured in the operational currency.

Foreign currency transactions in an entity's financial statements are initially recorded in this entity's operational currency at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are converted into the operational currency using the relevant spot rate as at the accounting date. Any differences are recognized in the income statement under financial items. Non-monetary items that are evaluated in terms of acquisition value in a foreign currency are converted at the prevailing rate as at the initial transaction date. Non-monetary items measured at fair value in a foreign currency are translated at the prevailing rate at the date of calculation of fair value.

The entities' financial statements that are subject to consolidation with a functional currency other than SEK are converted to SEK at the exchange rate prevailing as at the balance sheet date. Using this method, all assets and liabilities are converted at prevailing exchange rates as at the accounting date, and all income and expenses are converted at the average rate on a quarterly basis, which approximates the prevailing exchange rates per transaction day. The

difference between the obtained value and the value calculated for the same items by using the exchange rate prevailing as at the balance sheet date are recognized in other total income and recognized separately under equity in the conversion reserve item.

Classification

Fixed assets and long-term liabilities principally consist of amounts which may be expected to be recovered or defrayed within 12 months of the balance sheet date. Current assets and current liabilities principally consist of amounts which may be expected to be recovered or defrayed within 12 months of the balance sheet date.

Exploration and evaluation assets

Exploration and evaluation assets are recognized in accordance with IFRS 6 - Exploration for, and evaluation of, mineral resources. For exploration and evaluation assets, the Group uses the cost model and includes all costs directly related to the exploration for, and exploitation of, mineral resources. Costs, such as the purchase of development rights, topographical studies, exploration drilling, trenching, sampling and activities related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource are included in this balance.

The Group capitalizes the cost of purchases, maintenance, exploitation and explorations until the plants are put into production, abandoned, sold or, are considered to have declined in value. The costs are reclassified when the plants are under construction, which is when they are recognized in accordance with IAS 38, Intangible assets or IAS 16, Tangible assets.

Construction in progress regarding tangible fixed assets

Following the transfer of the exploration and evaluation asset, all costs relating to the construction, installation or completion of infrastructure are capitalized in "Construction in progress regarding tangible fixed assets".

The company evaluates all of the steps in the construction of each mine to determine when a mine goes into production stage. The criteria used to assess the commissioning date are determined on the basis of the unique qualities of each mine construction project; e.g. the complexity of a plant and its location. During this phase, all attributable expenses of the mine are capitalized for production. The company applies the most relevant criteria to assess when the mine is complete, ready for its intended use and reclassified from a "Construction in progress regarding tangible fixed assets" to specific items under "Tangible fixed assets". Some of these criteria include, inter alia, the following:

- Investment level and expenses compared to the original cost estimates
- The completion of a reasonable period of testing of the mine plant and equipment
- Capacity to produce iron ore concentrate within specification
- Long-term capacity to sustain production of iron ore concentrate

When a mine construction project enters the production stage, the capitalization of certain

construction costs is stopped and the costs are instead recognized as inventory or expensed, with the exception of costs related to the improvement of, or addition to, mining assets, underground mine development or development of exploitable reserves. It is also at this point that depreciation begins.

Mining assets

The mining assets include the capitalized costs of exploration and evaluation costs put into production, earth removal costs before the production phase and costs for Gråberg removal. Mining assets are recognized at their acquisition value with a deduction for accumulated depreciation and accumulated write-downs.

Tangible fixed assets

Tangible fixed assets are recognized at their acquisition value with a deduction for accumulated depreciation and accumulated write-downs. The initial cost of an asset comprises its acquisition cost or construction cost, any costs directly attributable to commissioning the asset, the initial estimate of the restoration obligation and, for relevant assets, borrowing costs. The acquisition cost or construction cost is the accumulated sum paid and the fair value of other considerations paid to acquire the asset. The capitalized value of financial leasing is also included in tangible fixed assets.

Depreciation

Tangible fixed assets related to the mine are amortized on the basis of unit-of-production (UOP) under the financially recoverable reserves of the relevant mine.

Other items under tangible fixed assets are generally amortized on a straight-line basis over their estimated useful lifetime as follows:

- Buildings	5 - 50 years
- Land	not amortized
- Land improvements	16 - 20 years
- Plant and machinery	5 - 20 years
- Vehicles	2 - 5 years
- Computer equipment	3 - 5 years
- Tools and equipment	3 - 7 years
- Improvement expenses for leased assets	3 - 10 years

An item under tangible fixed assets and other essential elements that are initially entered into the balance sheet are removed when disposed of or when no future financial benefits are expected from its use or disposal thereof. Any gain or loss arising from the asset no longer being entered (calculated as the difference between the sales price upon disposal and the carried amount of the asset) is included in the income statement when the asset is no longer included in the balance sheet.

The asset's residual value, useful lifetime and amortization method are reviewed at each reporting date and adjusted for the future if necessary.

Service, maintenance and repairs

When an asset or part of an asset is depreciated separately and is now fully depreciated, and it is probable that future financial benefits associated with the item will accrue to the Group through an extended period of use, the cost is capitalized.

Ongoing maintenance and repair costs are expensed as incurred.

Inventories

Iron ore stocks are physically measured or estimated and valued at either production cost or net realizable value; whichever is lower. Net realizable value is the estimated future sales price of the product that can be obtained when it is processed and sold, less the estimated costs of production and sales.

The costs are determined using a weighted method and consist of direct production costs and an appropriate portion of fixed and variable costs, including depreciation incurred by processing raw materials into finished products, based on standard production volume.

Material and equipment are evaluated at acquisition cost and replacement cost; whichever is lower. Any provision for obsolescence is determined by reference to specific inventory. An evaluation is carried out to determine the extent of any provision for obsolescence.

Intangible assets

Intangible assets include computer software. Intangible assets are initially measured at cost, which consists of the acquisition price plus any directly attributable costs of preparing the asset for its intended use. After intangible assets are initially included, they are evaluated at acquisition value less accumulated straight-line depreciation over their useful lives of three to five years, plus any impairment losses.

Deferred stripping costs

As part of its mining operations, Northland incurs stripping costs both during the development and production phases of the activity.

Deferred stripping costs that occur during the development of a mine, before the production phase begins, are capitalized as part of the construction costs for the mine and amortized over the period of production using a unit of production method. The capitalization of the costs ceases when the mine is completed and ready for production.

Stripping carried out during the production phase of an open cast mine is recognized as described below. After production has started, continued development may be required, which may involve abnormal stripping volumes similar in nature to the stripping volumes during development. Such stripping costs are recognized in the same way as during development; see the paragraph above.

The material to be disposed of during stripping in the production phase does not necessarily

consist 100 percent of waste. Often it is a combination of ore and waste. The ore content in the waste can vary from uneconomical low grade to profitable high degree. The extraction of material with low ore content from the waste may provide some useful material which can be used to build up stock. The extraction may also provide access to deeper strata containing material with higher ore content in the waste. There may, therefore, be two benefits for Northland in the stripping: usable ore that is used to build up stock and increased access to further quantities of material which will be recovered in future periods. If the financial benefit of the stripping is realized, e.g. building up inventory, Northland will recognize the costs of the stripping in accordance with the principle IAS 2 - Inventories. If the financial benefit consists of improved access to ore, Northland will recognize the costs as a fixed asset, stripping asset, if the following criteria are met:

- a) It is likely that Northland will receive future financial benefit (improved access to the ore body) from the stripping.
- b) Northland can identify the portion of the ore body to which access has improved.
- c) The cost of the stripping related to this portion can be estimated reliably

If not all of the criteria are met, the cost of the stripping is recognized as costs in the income statement during the period in which they occur.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are evaluated for impairment in accordance with IFRS 6 when the facts and circumstances indicate that the corresponding carrying values may exceed the recoverable value. One or more of the following facts and circumstances indicate that Northland should test the exploration and evaluation asset for impairment:

- The period for which Northland is entitled to explore the specific area has expired during the statement period or will expire in the near future and is not expected to be renewed.
- Significant expenditure on further exploration and evaluation of mineral resources in the specific area have not been budgeted or planned.
- The exploration for, and evaluation of, mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral, and Northland has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although the development of the specific area is likely to continue, it is unlikely that the book value of the exploration and evaluation asset will be recovered in full through successful development or by sale.

If there are indications that impairment is required, an impairment test is carried out in accordance with IAS 36.

Northland has identified all of Kaunisvaara's exploration area (including Tapuli, Sahavaara and Pellivuoma) as its cash generating units (CGU), and on that basis, impairment tests are

carried out as required.

Impairment of other non-financial assets

IAS 36 is applied when testing the impairment of intangible and tangible fixed assets. If there is an indication of impairment, the asset's recoverable amount must be calculated. The asset's recoverable value is the higher utility value and fair value less costs to sell.

When calculating utility value, the future cash flow is discounted at an interest rate which allows for market assessment of the risk-free interest rate and the risks associated with the specific asset. If the asset's recognized amount exceeds its recoverable amount, the recognized amount shall be written down to the recoverable amount and charged to the result for the period in the income statement

Financial instruments

(i) Financial assets

Initial recognition and measurement

The Group determines the classification of its financial assets upon initial recognition based on the categories and classification criteria in IAS 39. All financial assets are initially recognized at fair value. Financial assets that the Group held on 31 December 2013 have been classified as "loans and receivables" and "financial assets at fair value through the profit or loss account".

Loans outstanding and accounts receivable

Loans outstanding and accounts receivable are non-derivative financial assets with fixed or fixable payments that are not noted on the active market. After initial evaluation, such financial assets are evaluated at amortized acquisition cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium given at acquisition and fees or costs that are integrated into the APR.

Financial assets valued at fair value through the income statement

Financial assets evaluated at fair value through the income statement are derivative financial instruments with positive values or embedded derivatives, which is a component of a compound financial instrument that also includes a care contract that is not a derivative. These financial instruments are initially evaluated at fair value less transaction costs. In subsequent periods, these financial instruments are evaluated at fair value with changes in value through the income statement.

Removal from the balance sheet

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when the Group has been paid, or when the rights to receive cash flows from the asset have expired.

(ii) Impairment of financial assets

On each balance sheet date, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. If there is objective evidence, the impairment amount is calculated as the difference between the book value of the financial asset and the present value of estimated future cash flows discounted to the asset's effective interest rate. Impairment of financial assets is recognized in the income statement under other operating costs.

(iii) Financial liabilities

Initial recognition and valuation

The Group determines the classification of its financial liabilities upon initial recognition. The Group's financial liabilities include loans, accounts payable and other liabilities. These financial liabilities are initially recognized at fair value and subsequently at amortized acquisition cost using the effective interest method.

Loans

Loans are initially recognized at fair value less transaction costs. Loans are subsequently recognized at amortized acquisition cost using the effective interest method.

Fees paid upon 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 credit facility will be utilized. In this case the fees are pushed until they are used. In cases where there is no proof that part or all of the credit is likely to be utilized, the fees are capitalized as a prepayment for liquidity services and amortized over the period to which the credit is related.

Removal from the balance sheet

A financial asset is derecognized when the related obligation is discharged, cancelled or expires.

When an existing financial liability is replaced by another liability from the same lender on substantially different terms, or when the terms of an existing debt significantly change, such changes or replacements shall be managed by the original liability being derecognized and the new debt is entered instead. The difference between the respective book value is entered in the income statement.

(iv) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash in banks and in reserves and short-term deposits with original maturities within three months.

(v) Offsetting of financial instruments

Financial instruments and financial liabilities are offset and the net amount is entered in the

Group's financial statement if it is currently legal to set off the book amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities.

Fair value

The fair value of financial instruments traded on active markets upon each reporting date is determined using quoted market prices.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Such techniques include the use of current commercial market transactions; references to the current fair value of another instrument that is basically the same, a discounted cash flow analysis or other valuation models.

The Group evaluates financial instruments, such as embedded derivatives at fair value on the balance sheet date. Fair value is the price that would be received by selling an asset or paid to transfer a liability in a transaction between market participants on the valuation date. Fair value evaluation is based on the assumption that the transaction, i.e. the sale of the asset or the transfer of the liability takes place either:

- On the principal market for the asset or liability, or
- In the absence of a principal market, on the most advantageous market for the asset or liability.

The fair value of an asset or a liability is evaluated using the assumptions that market participants would use when pricing the asset or liability, provided that market participants act in their own most beneficial financial interest.

An evaluation of a non-financial asset at fair value takes into account the market participants' aim of generating financial benefit by using the asset at its highest and best usage or by selling it to another market participant who would use the asset at its highest and best possible usage.

The Group uses evaluation techniques that are appropriate in the circumstances and for which sufficient data is available to evaluate fair value, maximizing the use of relevant observable input and minimizing the use of unobservable input. As regards evaluation techniques applied to the determination of fair value upon initial recognition of loans resulting from the restructuring, refer to note 13.

All assets and liabilities for which the fair value is recognized or disclosed in the financial statements are categorized in the fair value hierarchy as described below, depending on the degree of observability of the input data that is relevant and used in measuring fair value:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Evaluation techniques based on input data that is relevant to the calculation

of fair value are directly or indirectly observable

- Level 3 - Evaluation techniques based on input data that is relevant to the calculation of fair value are not directly or indirectly observable

For assets and liabilities recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels of the hierarchy by re-assessing categorization (depending on the degree of observability of the input data that is significant to the fair value) at the end of each reporting period.

For information on fair value, the Group has determined categories of assets and liabilities based on the nature, characteristics and risks associated with the asset or liability and the level of the fair value hierarchy as described above. For more information on fair value, refer to note 22.

Leasing

The determination of whether an agreement is, or includes, a lease based on the agreement's form on the start date. An assessment is made of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or if the agreement includes rights to use the asset or assets, even if that right is not explicitly specified in a contract.

Obligations for operating 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 income statement on a linear basis over the lease term. The Group leases buildings, including office space, and a number of vehicles.

Obligations for financial leases

The Group leases certain facilities and certain equipment under financial leases. Leases of plant and equipment in which the Group assumes a substantial part of the overall risk and income from ownership are classified as finance leases. Financial leases are initially capitalized at the lower of the fair value of the leased asset and the current value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining debt. Financial leases are recognized under financial costs in the income statement.

The leased asset is depreciated over its useful life. However, if there is no probability that the Group will take over ownership at the end of the lease period, the asset is amortized over the shorter of the estimated useful life and the lease period.

Loan costs

General and specific loan costs that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to

prepare for their intended use or sale, are added to the cost of those assets until the assets are essentially ready for their intended use or sale. Borrowing costs have been capitalized as relevant tangible assets such as buildings, land improvements, mining assets and plant and equipment.

Investment returns from the temporary investment of specific loans in which the borrowing cost is calculated on assets for which the loan costs can be included in the acquisition value deducted from the borrowing costs that can be capitalized.

Income tax

The tax cost for the period comprises current and deferred tax. The current tax is calculated on the basis of the tax legislation approved or announced on the balance sheet date in Sweden and Norway. Management periodically evaluates statements in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. They decide the provision basis for the amount expected to be paid to the tax authorities.

Deferred tax is recognized, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their book value in order to incorporate this into the financial statements. The deferred tax liability is not recognized if it arises on initial recognition of an asset or liability in a transaction other than an acquisition that at the time of the transaction affects neither the booked or taxable income. Deferred tax is determined by using tax rates (and laws) that have been approved or announced on the balance sheet date and are expected to apply when the relevant deferred income tax asset is realized or the deferred tax liability is discharged.

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

Deferred tax liabilities arise from temporary differences on investments in subsidiaries and associate companies 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 be reversed in the foreseeable future.

Deferred tax assets and tax liabilities are offset when they are consistent with the law to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities are attributable to the income tax that is charged by the same taxation authority on either the tax item or various tax items where there is an intention to settle the balances on a net basis.

Provisions

Provisions are recognized when the Group has an existing obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources that offer financial benefit will be required to settle the obligation and a reliable estimate of the obligation can be made. Where The Group expects compensation for part or all of the provision, compensation will be taken up as a separate asset, but only when the compensation has been secured. If the

payment date is significant, the provisions will be discounted with a current pre-tax rate that, where appropriate, reflects the risk specific to the liability. When discounting is used, the increase in the provision resulting from timing differences is recognized as financial costs. For assumptions and estimates of restoration costs, see the information under Management's judgements, estimates and assumptions.

Revenue recognition

Income is recognised to the extent that the financial benefits are likely to accrue to the Group, and that the income can be calculated on a reliable basis. Revenue is evaluated at the fair value of the consideration received or may be received, including discounts and rebates, with the exception of sales taxes or similar.

Revenue from the sale of goods is recognized when the significant risks and rewards have been transferred, which is considered to occur when title passes to the customer. This usually occurs when the iron ore concentrate is physically transferred to a vessel or at another agreed location. Income is measured at the fair value of the consideration received or receivable.

The contractual terms of the Group's sales of iron ore concentrates states that prices depend on the quality of the production. The group issues provisional invoices on the day of sale. Further price adjustments are agreed separately with buyers on basis of the quality of the iron ore concentrate. These price adjustments are recognized after final determination of the quality. The period between provisional invoicing and final settlement can be up to 3 months.

The Group's sales according to off-take agreement are generally subject to discounts and commissions. These discounts and commissions in off-take agreements are recognized on an accrual basis if it is expected that they will be realized.

Reporting of operating segments

IFRS 8 requires disclosure of information about an accounting unit's operating segments, products and services, the geographic area and major customers in the financial statement and interim reports.

According to IFRS 8, an operating segment is part of an accounting unit:

- (a) carrying out activities from which one can obtain revenue and incur expenses (including revenues and expenses from transactions with other components within the same reporting unit),
- (b) whose operating results are regularly reviewed by the accounting unit's decision-making director of the operating segment, who regularly makes decisions on the resources to be allocated to the segment and assesses the result, and
- (c) For which discrete financial information is available.

The Group is involved in only one activity, (the mining operations in Kaunisvaara), one product (iron ore), and thus a single operating profit for which the decision-making manager

regularly makes decisions and allocates resources. Based on these circumstances, there is only one operating segment and no accounting for the operating segment.

Management's judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect reported income, costs, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period. Uncertainty regarding these assumptions and estimates could produce results that subsequently need to be significantly adjusted with respect to the recognized amount of assets or liabilities in subsequent periods.

Judgements

When management applies the Group's accounting policies, the following estimates are considered to have the most significant effect on the consolidated financial statements:

Judgement regarding changing loan terms in the reconstruction

As a consequence of the restructuring in 2013, management made the decision that the loan terms changed significantly with respect to, inter alia, maturities and interest rates, which led to new borrowings being entered on the balance sheet and a positive one-off effect of SEK 2,886 million was recognized in the income statement.

Licences

Northland's current and anticipated future operations, including further exploration, development and production start of the Group's properties require licences from various authorities in Sweden and Norway. There is no guarantee that all permits required for the construction of mining facilities and the daily mining operations can be obtained on reasonable terms, or at all. Delay or failure to obtain such licences, or the breaching of the conditions of licences obtained may result in significant negative consequences for the Group. Nor is there any guarantee that the licenses granted will not be revoked at a later date.

Taxes

Deferred tax assets are recognized for all tax losses carried forward to the extent that it is probable that taxable profit will be available, against which the losses can be offset. Essential assessment capability regarding the likely timing, size of future taxable income and future tax planning strategies is required by management to determine whether deferred tax assets can be recognized. As at 31 December 2013 the Group had tax loss carry forwards amounting to SEK 2378 million (981.4 million). All loss carry forwards have been used in the Group against deferred tax liabilities. These losses relate to Group units with historic losses in Sweden, 93.4% (92.5%) and in Norway 6.6% (7.5%). These do not expire and may not be used to make deductions from taxable income in another tax jurisdiction; see note 29. Loss carry forwards may only be valued at the amount of deferred tax liabilities within the same tax jurisdiction.

Estimates and assumptions

The key assumptions concerning the future and other significant estimate bases, uncertainty

on the balance sheet date, which entail a significant risk of the need for material adjustment to the recognizable values of assets and liabilities within the next financial year, are discussed below:

Going Concern

In preparing the financial statements, management must assess the Group's survivability. The management and Board of Northland believe that the financing requirements described in the Directors' report can be achieved. If this planned financing does not materialize or is delayed, it may undermine the Group's ability to continue as a going concern, which in turn could lead to the Group being unable to realize its assets and pay its debts in the normal course of business. The Board has considered these facts and circumstances, and decided to set up the Group and parent company's financial statements as at 31 December 2013 in accordance with the going concern principle. For information regarding going concern see note 2.

Assumption regarding the calculation of the fair value of restructured liabilities

In connection with the initial recognition of the new liabilities resulting from the restructuring carried out in 2013, management has made certain estimates and assumptions in estimating fair values, primarily related to interest rates and maturities. The assumption regarding interest was based on the rate for bond loans issued in June 2013, taking into account differences in maturity and collateral. The assumptions underlying the valuation has resulted in a positive one-off effect of SEK 2,899 million, which is recognized in the income statement; see note 13.

Valuation of financial instruments

As described above, management has made certain estimates and assumptions in the evaluation techniques used for determining the fair value of financial instruments. Changes to these assumptions and estimates may result in the Group's financial statements being materially affected in future periods. For an analysis and detailed description of the fair value of financial instruments, see note 13.

Exploration and evaluation costs

The application of Northland's accounting principles for exploration and evaluation expenditure requires an assessment to determine the respective probabilities that future economic benefits are derived either from future exploitation or sales or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Valuation of a mineral reserve is, in itself, an estimation process that requires varying degrees of uncertainty depending on the classifications and these estimates directly affect the timing of the capitalization of exploration costs. The capitalization policy requires management to make certain estimates and assumptions relating to future events or conditions, particularly in relation to the economic viability of exploitation. Estimates and assumptions may change if new information becomes available. If, after certain costs have been capitalized, the arrival of new data suggests that the recovery of costs is unlikely, the capitalized amount is amortized in the income statement for the period that coincides with the creation of the new data. For

the accounting year which ended 31 December 2013, exploration and evaluation costs totalling SEK 14,313 thousand (16,176) were capitalized as assets in the Group's balance sheet.

Impairment of assets

Northland assesses each asset or cash-generating unit (CGU) on each reporting date to determine whether there is any indication of impairment. If there is an indicator of impairment, a formal estimate is made of the recoverable amount. These judgements, subject to risks and uncertainties, are dependent on estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning and reclamation costs, exploration potential, reserves and operating results (which includes production and sales volumes).

Consequently, it is possible that changes in circumstances may affect these projections, which may affect the recoverable amount of the assets and/or CGU. Management defines CGU as individual mine sites, which are the lowest level for which cash flows are largely independent of other assets/cash generating units.

The large mining site Kaunisvaara (including open pits Tapuli, Sahavaara) are distinguished by the group as the CGU for which the test for impairment requirements is carried out. Capitalized exploration and evaluation costs amount, as at 31 December 2013, to SEK 116,272 thousand (102,662 thousand). An impairment of SEK 703 (0) thousand has been recognised when preparing the accounts for this financial year.

During the third and fourth quarters of 2013, the company carried out a devaluation test of the Kaunisvaara project's assets, which resulted in an impairment of SEK 359 million, corresponding to capitalized interest from Group companies. The impairment test showed that the Group's recognized value exceeded the fair value according to the sensitivity analysis, which led the Group to impair the difference to the Group's ultimate recognized value.

The assets of the Kaunisvaara project, including assets in Norway, have been tested for impairment in accordance with the financial model of the mine's lifetime used by the company in its feasibility study, Definite Feasibility Study (DFS), plus current data. If there is an indication of impairment, the asset's recoverable amount must be calculated. The asset's recoverable amount is the higher of the value in use and fair value less sales costs, the fair value less sales costs as calculated by the company have been used. The most significant assumptions used by the company are specified below:

- Discount rate after tax (Weighted Average Cost of Capital) WACC of 8.4%
- Full production will be reached in the fourth quarter of 2014
- Average price of iron ore per tonne at USD 120 FOB Life of Mine (LoM)
- Exchange rate USD/SEK: 6.90
- Production costs amounted to USD 70.1 per tonne LoM

The discount rate has been adjusted downward compared with the one in the impairment test presented in the financial statement 2012, mainly to reflect the general financing costs in the mining industry and adaptation to mining industry conditions rather than to the company's specific discount rates and circumstances in a difficult situation which the company finds itself in. This was reflected in last year's test.

The realized price assumption for the Company, free on board at Narvik port, has also been revised downwards compared to the previous year's test in order to reflect a lower realized price than the one planned for 2013 and a decrease in the reference price of 62% Fe CFR China. The use of the long-term assumption is partly based on experience gained by the dynamics of the market over the past few years, partly based on the recent market study by RMG for the Hannukainen project operated by Northland's Finnish company outside this group.

Over the past few years, the company, like many consultants and analysts in the iron and steel industry, has seen a pattern of how forecasts regarding demand for iron ore in the world have been consistently underestimated while forecasts on supply have been consistently overestimated. New projects which are expected to increase access are almost never on time, and a number of promising projects receive no funding, delays in environmental licences or encounter other obstacles that stop them completely or delay them significantly. These problems tend to increase when the pace of the market is slowing and prices fall which, in itself, drives up prices again. Another aspect of the same pattern is that future price curves almost always turn out to be too conservative.

Based on the above, the recoverable value (NPV) of the Kaunisvaara project approximately corresponds to the book value of assets as at 31 December 2013, which amounts to SEK 7,674 million after impairment equal to the inter-company capitalized interest mentioned above and in note 20. However, as shown in the sensitivity analysis below, margins are small. The amount is in millions of SEK

Variables	Before financing and after tax		
	NPV of 8.4% WACC	NPV of 8.9% WACC	NPV of 9.3% WACC
Base model	7,906	7,642	7,436
USD -110 FOB price	6,140	5,921	5,754
USD -100 FOB price	4,298	4,124	3,988
- Conversion rate USD/SEK 6.60	7,397	7,146	6,952
- Conversion rate USD/SEK 6.51	7,236	6,985	6,791
-10% increased Opex*	6,746	6,508	6,327

* Opex refers to production costs.

M SEK	Fair Value			Impairment		
Change In Volume/WACC	8.4%	8.9%	9.3%	8.4%	8.9%	9.3%
Base Model	7,906	7,642	7,436	232	-32	-238
-2 % in altered volume	7,524	7,270	7,075	-150	-404	-599
-4 % in altered volume	7,140	6,892	6,710	-534	-782	-964
-6 % in altered volume	6,749	6,521	6,339	-925	-1,153	-1,335

If any of the assumptions are adversely affected in the future, additional impairment of fixed assets may be required.

Estimates of ore reserves and mineral resources

Ore reserves are estimates of the amount of ore that the company has the financial and legal right to recover from the Group's mineral resources. The Group determines the amount of mineral reserves and mineral resources based on information compiled by qualified persons regarding geological and engineering data, such as ore body size, depth, form, rank and preparation technique suitability and production quotas. Such an analysis requires complex geological judgements regarding the interpretation of the data. The estimate of recoverable reserves is based upon factors such as projected exchange rates, commodity prices, future capital and production costs, in addition to geological assumptions and judgements made in the calculation of the ore body size and quality.

Because the economic assumptions may change and because geological data is continuously compiled during mining operations, it is possible that estimates of reserves are changing. Such changes may affect the Group's financial position and results, which include:

- The carrying value of exploration assets, mine properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows
- Depreciation and amortisation in the statement of comprehensive income may change when

they are determined using the unit of production method or where the useful life of the related assets changes

- Capitalised expenditure for stripping activities, recognised in the statement of financial position, either as fixed assets or as part of the inventories or that affect the statement of comprehensive income, may change due to changed recovery rates
- Provisions for restoration and environmental provisions may change where changes to the reserve assumptions affect expectations about when ore extraction will take place and the associated cost of these activities
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgement regarding the existence of such assets and in estimates of the likely recovery of such assets.

Site restoration costs

The Group makes full provision for its current obligations for the restoration of the mine sites, the production facilities for these sites and waste. These provisions are based on the management's best estimate of the expected outflow of financial resources in the future, discounted at the present value. This restoration work includes the dismantling and disposal of buildings, restoration of the mines and tailings dams, dismantling facilities, closing down the facilities and waste sites, as well as restoration, filling in the affected areas and rejuvenating the site. Changes in estimates in the final expected outflow of financial resources, the time when restoration will take place and the discount rate may have a significant impact on the Group's financial statements. As at 31 December 2013 the provision for restoration costs amounted to SEK 243 million (SEK 187 million).

Capitalised costs for stripping activities

The Group recognises the costs for mine stripping activities (stripping) in the development and production phase of the surface mine. Significant judgements are required to distinguish the stripping costs related to development and production. This also applies to distinguishing the stripping costs that are related to inventories and those related to the increased accessibility for future ore mining. Capitalized costs for stripping activities amount to MSEK 268 (MSEK 185).

Unit of Production (UOP) depreciation

Estimated economically recoverable reserves are used in determining the depreciation cost of mine-specific assets. The company has used the actual production of ore in the reporting period compared to the proven and probable reserves to determine the depreciation of the mine-specific assets. This results in a depreciation charge proportional to the depletion of the anticipated remaining life of mine production.

Inventories

Net realisable value tests are performed at each reporting date and represent the estimated future sales price of the product that the company expects to realise when the product is processed and sold, less estimated sale costs. Of the total inventory, SEK 72 million (SEK 9 million) was valued at net realizable value; see note 24.

Stocks are measured by estimating the number of tons added and removed from the stocks. The calculated ore recovery rate is based on the expected recovery through processing.

These are new standards and interpretations from IASB and statements from IFRIC that came into force in the financial year 2013.

IFRS 7 – Financial Instruments Disclosures (amendment)

This amendment is effective for annual periods from 1 January 2013. It requires information about all recognised financial instruments that are offset in accordance with paragraph 42 of IAS 32 – *Financial Instruments: Presentation, Classification*

This amendment also requires disclosures of information about recognised financial instruments subject to enforceable netting arrangements and similar agreements. This amendment has not had any significant impact on these consolidated financial statements.

IFRS 10 – Consolidated Financial Statements

This new standard becomes effective for annual periods beginning on 1 January 2014, but the Group has elected for an early adoption of the standard. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard defines the principles of controls as the basis for consolidation. It sets out how to apply the control principle to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. This new standard has not had any significant impact on these consolidated financial statements.

IFRS 11 – Joint Arrangement

This new standard becomes effective for annual periods beginning on 1 January 2014, but the Group has elected for an early adoption of the standard. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement – joint operations and joint ventures. Joint operations arise when a joint operator has rights to the assets and liabilities relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise when the joint venture has rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. Proportional consolidation of joint ventures is no longer allowed. This new standard has not had any significant impact on these consolidated financial statements.

IFRS 12 – Disclosures of Interest in Other Entities

This new standard becomes effective for annual periods beginning on 1 January 2014, but the Group has elected for an early adoption of the standard. IFRS 12 includes the information required in respect of all forms of interests in other companies, including joint arrangements, associates, special purpose companies and other companies off the balance sheet. This new standard has not had any significant impact on these consolidated financial statements.

IFRS 13 – Fair Value Measurement

This new standard is effective for annual periods from 1 January 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs. IFRS 13 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards. This amendment has not had any significant impact on these consolidated financial statements.

IAS 1 – Presentation of Financial Statements (Amendment)

The amendment applies for annual periods from 1 July 2012. The main change resulting from this amendment is a requirement for entities to group items present in ‘other comprehensive income’ on the basis of whether they are potentially classifiable to profit or loss subsequently (reclassification adjustments). This amendment does not address which items are presented in OCI. The amendment has not had any significant impact on the Group, except for the fact that the presentation in the report is under comprehensive income.

IAS 19 – Employee Benefits (Amendment)

This amendment is effective for annual periods from 1 January 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. As the Group does not have any defined contribution pension plans, this amendment has not any significant impact on the consolidated financial statements.

IAS 27 – Separate Financial Statements (Amendment)

This amendment becomes effective for annual periods beginning on 1 January 2014, but the Group has elected for an early adoption of the standard. This standard (revised 2011) includes the provisions on separate financial statements and the ones that remain after the provisions for consolidated financial statements have been included in the new IFRS 10. This amendment has not had any significant impact on these consolidated financial statements.

IAS 28 - Investment in Associates and Joint Ventures (Amendment)

Following the issue of the new standard IFRS 11, this change is effective for annual periods beginning on 1 January 2014, but the Group has elected for an early adoption of the standard. This amendment has not had any significant impact on these consolidated financial statements.

IFRIC 20 – Stripping costs in the production phase of a surface mine

This interpretation describes how to recognise the costs of removing the surface layer to access the ore, known as ‘stripping activities’, during the production phase of a surface mine. This interpretation is effective for annual periods beginning on 1 January 2013 or later, but Northland elected for an early adoption from 1 January 2012.

These are new and amended standards and interpretations that have been issued, but have not yet come into force

IFRS 9 – Financial Instruments

IFRS 9 is a new standard that is not yet complete and will replace IAS 39 in the future. At the moment a date has not been set for when the standard will come into force and the Group has not yet evaluated the potential effect that this new standard will have on the financial statements.

IAS 19 – Employee Benefits (Amendment)

This amendment becomes effective for annual periods beginning on or after 1 July 2014, but has not yet been endorsed by the EU. This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. This amendment is not expected to have any impact on the consolidated financial statements.

IAS 32 - Financial instruments Classification (amendment)

This amendment becomes effective for annual periods beginning on 1 January 2014. It clarifies certain aspects relating to the diversity in the application of the requirements on offsetting financial assets and financial liabilities and it focuses on four main areas:

- the meaning of "currently has a legally enforceable right to set-off"
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts; and
- the unit of account for applying the offsetting requirements.

This amendment is not expected to have any significant impact on the consolidated financial statements.

IAS 36 – Impairment of Assets (Amendment)

This amendment relates to recoverable amount disclosures for non-financial assets. It becomes effective for annual periods beginning on or after 1 January 2014 and is not expected to have any significant impact on the consolidated financial statements.

IFRIC 21 – Levies

IFRIC 21 shall apply to accounting periods beginning 1 January 2014 or later, but has not yet been approved by the EU. The interpretation clarifies when a liability for "levies" shall be recognized. Levies are fees/taxes that state or corresponding bodies impose on companies in accordance with laws/ordinances, except for income taxes, penalties and fines. The interpretation states that a liability must be reported when the company is obliged to pay the fee as a result of an event that has occurred. A liability is recognised progressively if the obligating event occurs over a period of time. If a certain minimum level to be achieved for the obligation to arise, the liability only when this level is reached. IFRIC 21 is not expected to have any significant impact on the consolidated financial statements.

Note 2 Going Concern

The Group and its Group-parent company identified funding and liquidity shortages in the Kaunisvaara project at the end of 2012, which led to the Swedish subsidiaries applying for restructuring. The restructuring of the company lasted from 8 February 2013 to 23 August 2013, when the restructuring was formally completed, in accordance with the court's decision. In late May 2013, Northland successfully completed the drawing down of a bond offering of USD 335 million. The new long-term bonds have first lien, while the bond loan issued in 2012 after the restructuring has a subordinated lien with an obligatory conversion into equity no later than 2016. As at 31 December, the Group has made three payouts from the bond loan, corresponding to USD 335 million, and all funds have been released to Northland.

During the second half of 2013, the Group had a production deficit in comparison with the schedule, and combined with higher than expected inventory levels in the fourth quarter and further adverse developments due to severe cold/freezing and lost production in early 2014 the liquidity situation has become critical. To ensure that the Group maintains its financial and operational flexibility and in order to reduce the risk of a liquidity shortage in 2014 due to spikes in working capital, negative changes in iron ore prices and exchange rates, increases in spending, disruptions and delays in the production, the Board decided in November 2013 to seek additional financing of approximately USD 150 million. In the restructuring plan and the agreement regarding the bond loan, equivalent to USD 335 million, Northland identified a number of potential additional sources of funding which, if realized, would contribute to the required liquidity buffer. These sources include additional finance lease agreements for equipment, prepayment agreements for customers and an expanded bond loan of up to USD 50 million and a proposed share issue of up to USD 50 million. On 31 January, the Company signed an agreement for a total value of USD 25 million with a large Scandinavian bank regarding the leasing of mobile mining equipment, which was delivered to the company in 2013 and 2014. It should, however, be noted that this amount was already taken into account in the calculation of the need for additional financing of approximately USD 150 million.

The company is dependent on short-term liquidity by deferring payments to suppliers or other financing sources. As regards the above financing sources, Northland believes that USD 85 million will be realized in the coming months through additional lease agreements for equipment (USD 25 million) and arrangements for advance payments and bridge financing (USD 60 million). See Note 40 for more information. Because of the increasing liquidity stress, the Group, in unison with its financial advisors, decided to accelerate the financing and intends to present a long-term solution in the latter part of 2014. This will take place after discussions with current and potential investors. Such financing proposals may consist of the issuance of new bonds, new rights in NRSA and the conversion of parts of existing bonds and supplier liabilities to equity. These proposals are subject to approval by bondholders and shareholders. See Note 40 for more information.

Group management and the Board believe that additional financing can be secured from the sources identified above. It is estimated that it will take 3 to 6 months to acquire financing from new long-term funding sources. Meanwhile, the Group plans to manage the short-term financing needs through extended periods of credit to certain suppliers, concluding leases for

mobile mining equipment and by entering into new short-term financing solutions. The long-term financing is dependent on the Group's ability to attract sufficient financing and approval from both bondholders and shareholders. If this planned financing does not materialize or is delayed, it may affect the Group's ability to continue as a going concern, which in turn could lead to the Group being unable to realize its receivables and pay its debts in the normal course of business. The Board has considered these facts and circumstances, and decided to set up the Group and parent company's financial statements as at 31 December 2013 in accordance with the going concern principle.

The restructuring plan that was developed in conjunction with the corporate restructuring of Northland Sweden AB, Northland Resources AB and Northland Logistics AB and the accord Luleå District Court stipulated on 12 July 2013 shows that companies in the Group have a number of obligations that include payment to creditors in accordance with the established accord and limitations on operational and financial changes in the companies. In the event that the Group company is unable to fulfil its obligations relating to the restructuring plan, the agreements entered into in connection with specified restructuring plan and the established accord, Luleå District Court may, upon the request of an interested creditor, terminate the accord, which in turn implies that an amount of SEK 1,236 million of long-term debt may fall due for immediate payment. The book value of the Group is SEK 669 million.

Note 3 Depreciation and amortisation per function

	The Group		Parent Company	
	2013	2012	2013	2012
Depreciation and amortisation affecting the cost of goods sold	366,384	29,072	282,894	27,521
Depreciation and amortisation affecting administrative expenses	1,021	596	1,021	373
	367,405	29,668	283,915	27,894

Note 4 Cost of goods sold

	The Group		Parent Company	
	2013	2012	2013	2012
Staff costs	125,626	40,770	120,159	40,758
Depreciation of plant and machinery	366,384	29,072	282,894	27,521
Transport and management of logistics	419,143	26,498	608,727	272
Repair and maintenance of plant and machinery	150,873	14,648	150,873	14,648
Drilling and production planning	2,900	18,324	2,900	18,324
Electricity, fuel, gas and other related energies	102,631	12,510	102,631	12,311
Subcontractors	80,000	10,169	79,986	10,169
Supplies	41,431	4,048	41,194	4,048
Site restoration costs	20,381	-	30,111	-
Rent and utilities	24,655	3,070	15,487	2,743
Consultancy fees	4,969	1,968	3,978	1,828
Other costs	<u>39,910</u>	<u>40,473</u>	<u>43,675</u>	<u>16,765</u>
Gross cost	1,378,903	201,550	1,482,614	149,387
Capitalized costs for stripping activities	-75,206	-38,641	-75,206	-38,641
Stock change	-65,495	-	-65,185	-
	1,238,202	162,909	1,342,224	110,746

Note 5 Related party transactions

The Managing Director and other management staff were employed in the parent company Northland Sweden AB in the financial year. Otherwise the CEO and other management personnel were employees of the parent company Northland Sweden AB during the accounting year. Northland Sweden AB invoiced the Group for the aforementioned services. See note 8.

During this financial year and the previous financial year the company has not had any sales to Group companies.

Purchases from Group companies have been made at the amounts given below.

<u>The Group</u>	2013	2012
Purchases of goods and services		
Northland Sweden AB	83,677	105,780
Northland Exploration Sweden AB	127	706
Northland Exploration Finland OY	1,148	625
Northland Resources SA	18,429	-
Northland Mine OY	529	70
Total	103,910	107,181
Interest charges		
Northland Exploration Finland OY	13	-
Northland Resources SA	144,970	-
Northland Sweden AB	69,751	216,372
Total	214,734	216,372
Loans		
Northland Exploration Finland OY	150	-
Northland Resources SA	2,291,755	-
Northland Sweden AB	104,046	2,069,375
Total	2,395,951	2,069,375
Liquid revenue		
Northland Sweden AB	-	543
Northland Exploration Sweden AB	-	38
Total		581
Circulating liabilities		
Northland Resources SA	623	35,713

Northland Sweden AB	11,517	101,269
Northland Exploration Finland OY	508	8
Northland Mine OY	329	-
Total	12,977	136,990

<u>Parent company</u>	2013	2012
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Other revenue

Northland Sweden AB	2,970	-
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Purchases of goods and services

Northland Sweden AB	70,386	89,840
Northland Exploration Sweden AB	127	706
Northland Logistics AB	495,413	42
Northland Exploration Finland OY	1,148	625
Northland Logistics AS	115,898	-
Northland Resources SA	18,429	-
Northland Mine OY	529	70
Total	701,930	91,283

Income from interest

Northland Logistics AB	96,484	65,669
Northland Logistics AS	737	-
Northland Sweden AB	31	-
Total	97,252	65,669

Interest charges

Northland Resources SA	26,749	-
Northland Sweden AB	113,903	216,372
Northland Logistics AB	1,393	-
Northland Logistics AS	45	-
Northland Exploration Finland OY	20	-
Total	142,110	216,372

Loans receivables

Northland Logistics AS	45,241	-
Northland Logistics AB	1,741,307	1,100,788
Northland Sweden AB	908	-
Total	1,787,456	1,100,788

Loans

Northland Resources SA	2,497,442	-
Northland Logistics AB	49,326	-
Northland Sweden AB	2,262,723	2,069,375

Northland Logistics AS	1,345	-
Northland Exploration Finland OY	553	-
Total	4,811,389	2,069,375

Liquid revenue

Northland Logistics AB	22	50
Northland Sweden AB	3,472	543
Northland Logistics AS	89,932	-
Total	93,426	593

Circulating liabilities

Northland Resources SA	605	35,713
Northland Sweden AB	136,540	85,328
Northland Exploration Finland OY	519	8
Northland Logistics AS	46,469	-
Northland Mine OY	309	-
Northland Logistics AB	-	1
Total	187,442	121,050

Note 6 Administrative costs

	The Group		Parent company	
	2013	2012	2013	2012
Administrative services from Group companies	103,763	101,205	90,495	85,283
Office overheads and supplies	22,589	10,548	22,583	10,300
Consultancy fees	106,639	8,807	105,476	5,718
External services	26,318	2,494	24,311	1,968
Staff costs	563	1,137	509	1,168
Depreciation of plant and machinery	1,021	596	1,021	373
Rent and utilities	2,137	549	1,570	405
Travel expenses	910	193	740	193
Sales and marketing costs	114	161	110	
Other costs	2,632	320	2,569	279
Total	266,686	126,010	249,384	105,687

Note 7 Remuneration to auditors

	The Group		Parent company	
	2013	2012	2013	2012
<u>Ernst & Young</u>				
Audit assignments	1,032	968	415	788
Auditing services other than the audit assignment	-	211	-	211
Tax Assistance	124	27	-	-
Other services	79	23	79	1
Total	1,235	1,229	495	1,000

Note 8 Salaries, remuneration and social security contributions

	The Group		Parent company	
	2013	2012	2013	2012
The average number of employees				
Female	39	15	38	15
Male	149	57	148	57
Total	188	72	186	72
Salaries, remuneration, social security contributions and pension costs				
Salaries and remuneration to the Board of Directors and Managing Director	698	-	-	-
Wages, compensations to other employees	85,222	24,704	84,579	24,704
Statutory and contractual social security contributions	23,473	8,835	23,051	8,835
Pension costs for the Board of Directors and Managing Director	99	-	-	-
Pension costs for other employees	8,693	3,616	3,271	3,616
Total	118,185	37,155	110,901	37,155

The Group only has defined contribution pension plans. The total cost amounts to MSEK 6,936 (2,180). The old-age pension obligation and family pension obligation for salaried employees in Sweden are insured with Alecta. According to the Statement from the Swedish Financial Reporting Board UFR 3, this is a multi-employer defined contribution plan. Northland has not had access to the kind of information that would enable it to report this plan as a defined benefit plan. The ITP pension plan insured by Alecta is therefore reported as a defined contribution plan. This year's pension insurance fees related to Alecta amounts to MSEK 1,856 (1,436). Alecta's surplus can be distributed to policyholders and/or the people insured. At the end of 2013 Alecta's surplus in the form of the collective consolidation level was 148 percent (130). The collective consolidation level is the market value of Alecta's assets divided by total insurance commitments, calculated in accordance with Alecta's actuarial assumptions that do not comply with IAS 19.

	The Group		Parent company	
Board members and leading employees				
Number of directors as at the balance sheet date:				
Female	2	-	2	-
Male	9	3	5	3
Total	11	3	7	3

The Managing Director and other management staff were employed in the parent company Northland Sweden AB in the financial year. Otherwise the CEO and other management personnel were employees of the parent company Northland Sweden AB during the accounting year. Northland Sweden AB invoiced the Group for the aforementioned services.

Management was granted options in the ultimate parent company. The cost of the option programme, which was calculated using the Black-Scholes method, shall be charged to the company in which the personnel are employed. The cost for the Parent Company amounted to SEK 714 thousand (SEK 616 thousand) and SEK 741 thousand (616 thousand) for the Group.

Note 9 Operating lease agreements

	The Group		Parent company	
	2013	2012	2013	2012
The nominal value of future minimum lease charges, relating to non-terminable lease agreements, is broken down as follows:				
Payable within one year	30,385	27,997	12,126	10,306
Payable later than one but within 5 years	94,069	92,846	21,160	24,023
Payable later than five years	67,396	78,611	-	-
	191,850	199,454	33,286	34,329
Lease expenses for operating lease agreements during the year amount to the following amounts	26,177	18,174	20,958	3,722

Note 10 Results from participations in Group companies

	Parent company	
	2013	2012
Group contributions	-	-10,759

Note 11 Other interest income and similar profit/loss items

	The Group		Parent company	
	2013	2012	2013	2012
Income from interest	2,192	7,997	1,660	7,783
Income from interest from group company	-	-	97,252	65,669
Revaluation of Group debt due to reassessment of the maturity profile	54,034	-	-	-
Foreign exchange gains	-	113,855	69,988	112,393
Total	56,226	121,852	168,900	185,845

Note 12 Interest expenses and similar profit/loss items

The Group	Parent company
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	2013	2012	2013	2012
Interest expenses to Group companies	87,648	12,217	142,111	216,372
Interest expenses – bond loan	106,979	15,324	295,444	248,724
Interest expenses – finance leasing	8,503	2,160	8,503	2,160
Interest expenses supplier credit	42,345	-	40,012	-
Financial costs	48,816	19,128	23,843	103,465
Foreign exchange losses	62,574	1,666	-	-
Other interest expenses and similar profit/loss items	14,590	2,011	1,995	1,993
Total	371,455	52,506	511,908	572,714

For information regarding the effective interest rate and other terms and conditions, see note 13 and note with respect to capitalized interest.

Note 13 Effect of restructured financing

	The Group		Parent company	
	2013	2012	2013	2012
Initial recognition of renegotiated terms – second lien bond	228,200	-	-	-
Transaction expenses relating to the original bond	-117,031	-	-117,031	-
Initial recognition of renegotiated terms – trade payables	606,284	-	-	-
Initial recognition of renegotiated terms – inter-company liabilities and liabilities to related parties	2,181,753	-	-	-
Total	2,899,206	-	-117,031	-

First lien bond

On 6 June 2013, Northland Resources AB issued a new bond loan equivalent to USD 335 million with first lien and maturity in 2019. The bonds were issued with a 7% discount, whereupon the total liquidity inflow was approximately SEK 2,038 million. The bonds carry 15% annual payment in kind interest (meaning that payment is made through the interest rate increasing the bond loan) until 15 July 2015, 15% annual cash interest with a pay if you can proviso during the period from 16 June 2015 to and including 15 June 2016, and thereafter 15% annual cash interest from 16 July 2016. The new borrowings were issued with subscription warrants representing 50% of the pro forma equity after the restructuring of the NRSA Group.

On 31 July 2013 NRSA announced that the issuance of warrants had been approved by the shareholders' meeting. The holders of the new bond will receive warrants representing 83,592,299 new shares in NRSA. Fully diluted, this represents approximately 50 percent of the shares in NRSA. The portion of the proceeds relating to the warrants, approximately MSEK 354, is reported as equity contribution from the parent company.

The bond was initially recognised at its fair value of MSEK 1,521 on 6 June 2013 and will in subsequent periods be recognised at its accrued acquisition value with an effective interest rate of 23.5% per year in accordance with the effective interest rate method.

The bonds mature on 15 July 2019, but the company has an option to redeem bonds before their maturity (call option) on the following conditions:

- between 16 July 2016 and 15 July 2017 at 107.5% of par plus accrued interest
- between 16 July 2017 and 15 July 2018 at 105% of par plus accrued interest
- between 16 July 2018 and 14 July 2019 at 102.5% of par plus accrued interest.

The call option is treated as an embedded derivative and is accounted for separately from the host contract (the bond). As at the reporting date of 31 December 2013 the fair value of this embedded derivative amounted to SEK 2 thousand and was not accounted for by the company due to the low and insignificant amount. The fair value of the call option has been calculated using the Black Model, which is based on the following assumptions:

- The risk-free rates to calculate the forward bond price and to present value of coupons based on the yield curve for US Treasuries, ranging from 0.08% for a tenor of 0.79 years up to 1.64% for 5.79 years.
- The assessed future volatility is based on the historical yield volatility of the same bonds issued by comparable companies as used in the valuation as at June 6, 2013. Based on the historical yield volatility levels for the similar bonds of 36.7% (median

value), the bond's duration of 3.29 years and yield of 23.6% as at 30 September 2013, the volatility of the forward bond price during the life of the option is assessed at 28.0%.

Second lien bond

In accordance with the bond agreement dated 5 March 2012 and 19 December 2012, the Company issued five-year bonds equivalent to USD 370 million. Following approval of the existing bondholders and the NRSA's Extraordinary General Meeting, the existing loan equivalent to USD 370 million was taken over by the NRSA on 31 July 2013. The conditions were changed to being mandatorily convertible into NRSA shares.

Although NRSA assumed the obligations to the holders of the convertible loan, in accordance with the restructuring organisation plan and an agreement between the Company and NRSA, the Company has the same obligations to the NRSA as NRSA has to the holders of the convertible loan.

The second lien bonds have two tranches for the bondholders: one corresponds to NOK 460 million and one USD 290 million. The convertible bonds carry a 4% per annum payment in kind interest payable semi-annually up to 15 July 2015, a cash payment or payment in kind interest thereafter subject to the free cash balance as defined in the terms and conditions of the agreement. The bond loan is converted to an equivalent of 46.9% of pro forma equity in NRSA Group after the reorganization. Mandatory conversion into NRSA shares occurs at the earlier of

- i) i) The company producing and selling 4 million dry metric tons of iron ore concentrate on a rolling 12-month basis, or
- ii) ii) 14 July 2016, but can be converted to shares in NRSA by the holders in January and July each year.

In the event of a change of the ownership structure, the convertible bond is fully redeemable at 101% of par at the request of the holders.

The new restructured, intercompany liability in USD and NOK to NRSA was recognised for the first time on 2 August 2013 and its fair value amounted to MSEK 2,238. In subsequent periods the bond will be recognised at its accrued acquisition value with an effective interest of 17.0% per year in accordance with the effective interest rate method.

When the old bond was removed from the statement of financial position and the new intercompany loan was recognised for the first time, there was a gain of MSEK 228. Transaction costs corresponding to MSEK 117, relating to the original bond, were posted as a consequence of the above.

In accordance with the restructuring agreement, inter-company debt to NRSA shall be converted to shareholder contributions at the same time as the second lien bond is converted into NRSA shares. On 15 January 2014, approximately 23% of the Second Lien bond was converted into shares, which also meant that the company's inter-company debt to NRSA was converted to shareholder contributions of approximately 23%, corresponding to SEK 556 million.

Restructured accounts payable

After the creditors' approval of the restructuring plan, which was approved by the Luleå District Court 12 July 2013, the previously renegotiated accounts payable, corresponding to SEK 1,216 million including VAT, were renegotiated to interest-bearing supplier credit with a payment plan and final payment on 15 July 2020 for PEAB and Metso and 15 January 2017 for other suppliers. The interest-bearing supplier credit will carry 4% annual interest accrued from February 2013. Repayment of the principal shall be made in equal semi-annual payments, commencing in July 2015, on condition that cash may only be paid to creditors in the first lien bond. All payments are subject to access to free cash equivalents as defined in the agreement.

The fair value of the restructured trade payables amounted to MSEK 610 on initial recognition, which was based on a market rate of 17% and 23%. The initial recognition of the restructured trade payables resulted in a one-off gain of MSEK 606.

Other restructured inter-company liabilities

As part of the total reconstruction plan, loans and other liabilities to Group companies in the NRSA Group of MSEK 2,308 have been renegotiated to interest-bearing credit (including VAT and accrued interest for outstanding liabilities). The credit shall fall due and is payable on 30 June 2031 for the loan component corresponding to the original maturity, and 31 December 2020 for other liabilities. The credit bears annual interest of 4% from February 2013. All payments are subject to access to free cash equivalents as defined in the agreement.

Upon initial recognition, the fair value of the restructured loans to group companies within the NRSA Group amounted to SEK 107 million, which was based on a market interest rate of 25%. The initial recognition resulted in a one-time gain of SEK 2,182 million.

Note 14 - Tax on the annual profit/loss

	The Group		Parent company	
	2013	2012	2013	2012
<u>Tax expense for the year:</u>				
Current tax	-	-	-	-
Deferred tax	-218,280	-	-	-
Total	-218,280	-	-	-
<u>Deferred tax attributable to:</u>				
Change in temporary differences	-655,540	-59,046	-493	-8,324
Change in capitalised tax value in losses carried forward	437,260	59,046	493	8,324
Total	-218,280	-	-	-
<u>Reconciliation of effective tax:</u>				
Result before tax	1,363,076	-220,206	-1,408,930	-614,732
Tax in accordance with tax rate for the parent company	-299,877	57,914	309,965	161,675
Effect of other tax rates for foreign subsidiaries	-7,705	1,271	-	-
Tax effect attributable to:				
-Non-deductible costs	-4,862	-166	-1,097	-194
-Non-taxable revenue	6,033	27	6,028	28
-Increase in losses carried forward without a corresponding capitalisation of deferred tax assets	-	-59,046	-314,896	-161,509
-Unused losses carried forward from previous years	89,956	-	-	-
- Other	-1,825	-	-	-
Total	-218,280	-	-	-

Note 15 Capital expenditure for software

	The Group		Parent company	
	2013	2012	2013	2012
Opening acquisition cost	35	2,010	35	1,004
Sales and scrapping	-	-1,975	-	-969
Closing accumulated acquisition value	35	35	35	35
Opening depreciation	-34	-431	-34	-216
Sales and scrapping	-	688	-	388
Annual depreciation	-1	-291	-1	-205
Conversion differentials	-	-	-	-1
Closing accumulated depreciation	-35	-34	-35	-34
Closing residual value according to plan	-	1	-	1

Note 16 Capital expenditure for exploration

	The Group		Parent company	
	2013	2012	2013	2012
Opening acquisition cost	102,662	86,486	102,662	86,486
Capitalised expenditure for the year, purchases	14,313	16,176	14,313	16,176
Disposals	-703	-	-703	-
Closing residual value according to plan	116,272	102,662	116,272	102,662

The capitalised costs mostly comprise consultancy costs, drilling costs and staff costs. During exploration activities and/or evaluating mineral deposits to see whether the resources are economically recoverable, no depreciation is posted during the exploration and evaluation phase. There has been an impairment test on all exploration assets and the company has judged that there are no impairment needs, except for what has been disposed of above.

Note 17 Buildings, land and land improvements**Land and buildings**

	The Group		Parent company	
	2013	2012	2013	2012
Opening acquisition cost	502,149	10,783	502,149	10,783
Purchases	38	1,371	38	1,371
Reclassifications, see note 20	1,531,797	489,995	451,584	489,995
Foreign exchange fluctuation	-5,187	-	-	-
Closing accumulated acquisition value	2,028,797	502,149	953,771	502,149
Opening depreciation	-14,172	-102	-14,172	-102
Annual depreciation	-66,770	-14,070	-40,570	-14,070
Foreign exchange fluctuation	489	-	-	-
Closing accumulated depreciation	-80,453	-14,172	-54,742	-14,172
Closing residual value according to plan	1,948,344	487,977	899,029	487,977

The carrying value for the Group includes capitalised interest of SEK 95,912 thousand transferred from construction in progress during the year.

Mining assets

	The Group		Parent company	
	2013	2012	2013	2012
Opening acquisition cost	494,707	-	494,707	-
Purchases				
Reclassifications, see note 20	91,054	494,707	77,338	494,707
Closing accumulated acquisition value	585,761	494,707	572,045	494,707
Opening depreciation	-1,484	-	-1,484	-
Annual depreciation	-49,026	-1,484	-47,266	-1,484
Closing accumulated depreciation	-50,510	-1,484	-48,750	-1,484
Closing residual value according to plan	535,251	493,223	523,295	493,223

The carrying amount of the Group during the year included capitalized interest transferred from construction in progress of SEK 13,252 thousand. The Group's stripping costs included SEK 279,844 thousand (195,396)

Note 18 Equipment, tools, fixtures and fittings

	The Group			Parent company
	2013	2012	2013	2012
Opening acquisition cost	332,165	9,147	332,165	7,077
Changes during the year				
-Purchases	13,409	89,141	4,307	89,141
-Sales and disposals	-	-264	-	-50
-Through acquisitions from Group companies	-	-	-	67
-Through sales to Group companies	-	-1,789	-	-
-Reclassifications, see note 20	3,453,877	235,930	2,194,830	235,930
Foreign exchange fluctuation	-2,944	-	-	-
Closing accumulated acquisition value	3,796,507	332,165	2 531 302	332,165
Opening depreciation	-8,792	-4,770	-8,792	-3,897
Changes during the year				
-Sales and disposals	-	206	-	44
-Through acquisitions from Group companies	-	-	-	-27
-Through sales to Group companies	-	821	-	-
-Depreciation	-222,666	-5,048	-178,766	-4,911
Foreign exchange fluctuation	168			
-Translation differences	-	-1	-1	-1
Closing accumulated depreciation	-231,290	-8,792	-187,559	-8,792
Closing residual value according to plan	3,565,217	323,373	2,343,743	323,373

The carrying value for the Group includes capitalised interest of SEK 116,815 thousand transferred from construction in progress during the year.

Note 19 Assets held under finance leases

	The Group			Parent company
	2013	2012	2013	2012
Opening acquisition cost	192,574	-	188,071	-
Changes during the year				
-Reclassifications, see note 20	1,904	192,574	1,904	188,071
Closing accumulated acquisition value	194,478	192,574	189,975	188,071
Opening depreciation	-8,684	-	-8,519	-
Changes during the year				
-Depreciation	-17,807	-8,684	-17,310	-8,519
Closing accumulated depreciation	-26,489	-8,684	-25,829	-8,519
Closing residual value according to plan	167,991	183,890	164,146	179,552

No expenses were capitalised in 2013.

Note 20 Mines under construction relating to property, plant and equipment

	The Group		Parent company	
	2013	2012	2013	2012
Opening expenditure	4,661,001	1,683,600	2,738,610	1,572,907
Expenditure during the year	2,361,064	4,421,287	1,237,799	2,654,233
Transfer to/from Group companies	-	-	-5,227	-42,230
Impairment during the year	-358,729	-	-	-
Reclassifications, see notes 17, 18, 19	-5,078,635	-1,446,301	-2,725,659	-1,446,301
Foreign exchange fluctuation	-126,081	2,415	-	-
Conversion differentials	-	-	-	1
Closing costs incurred	1,458,620	4,661,001	1,245,523	2,738,610

The carrying value of the Group includes capitalised interest of SEK 835,453 thousand as at 31 December 2013, of which SEK 345,926 was capitalised during the year. During the year, other fixed assets, including capitalized interest, were reclassified. The effective interest rate for capitalized loan costs is estimated to be between 13.25 to 25% (13.25 to 15.2%) depending on the lender. For more information see note 13.

Assets under construction will not be depreciated until the facilities are completed. When the facilities have been completed, the assets are transferred to property, plant and equipment or mining properties and are calculated to have normal depreciation during their estimated useful life in accordance with IAS 16.

The amounts that are written down are classified under Other operating expenses. The company has performed impairment tests based on cash flow, forecast period and discount factors on the remaining acquisition value and has judged that no further impairment needs are required.

The comparative figure for the parent company for 2012 has changed. See details in note 1.

Note 21 Investment obligations

The Group has a number of contracted investment obligations. They refer to the Kaunisvaara project. The investments are calculated to amount to MSEK 787 in total (MSEK 2,444 in 2012). The investments are expected to end in 2014-2015.

Note 22 Financial assets and liabilities by valuation category

The table below is a summary of the carrying values for certain financial assets and liabilities in accordance with IAS 39 for the Group. All financial assets, except for embedded derivatives, are categorized as loans receivable and accounts receivable. The financial liabilities are categorized as other financial liabilities. There is not a similar summary for the parent company, as the parent company, in accordance with RFR 2, does not apply IAS 39, but instead reports and values its financial instruments based on their acquisition value in accordance with the Annual Accounts Act.

The Group as at 31 December	Book value		Fair value	
	2013	2012	2013	2012
Assets				
Blocked bank balances	98,782	301,308	98,782	301,308
Total	98,782	301,308	98,782	301,308
Liabilities				
First lien bonds/bond loan	-1,738,028	-	-1,573,210	-
First lien bond embedded derivatives	-	-	-2	-
Second lien bonds/bond loan	-	-2,304,713	-	-2 436 952
Long-term liabilities to Group companies	-2,395,951	-2,069,375	-2,330,094	-2,069,375
Long-term accounts payable	-669,200	-49,100	-630,982	-49,100
Total	-4,803,179	-4 423 188	-4,534,288	-4,555,427
Parent company as at 31 December	Book value		Fair value	
	2013	2012	2013	2012
Assets				
Blocked bank balances	98,782	301,308	98,782	301,308
Total	98,782	301,308	98,782	301,308
Liabilities				
First lien bonds/bond loan	-1,738,028	-	-1,573,210	-
First lien bond embedded derivatives	-	-	-2	-
Second lien bonds/bond loan	-	-2,304,713	-	-2,436,952
Long-term liabilities to Group companies	-4,811,389	-2,069,375	-2,344,059	-2,069,375
Long-term accounts payable	-1,050,541	-49,100	-527,053	-49,100
Total	-7 599 958	-4,423,188	-4,444,324	-4,555,427

Management has judged that the bank deposits, current receivables and current liabilities have the approximate or same book value as the fair value due to the short-term maturities of

these instruments.

The fair value of blocked funds in escrow accounts is considered to be equal to their book value due to the normal market rates applied to these instruments.

The data used when calculating the fair value of first lien bonds is the market prices, based on the unofficial trading of the bond.

The fair value of non-current trade payables and non-current intercompany liabilities relating to the restructured company financing is calculated using the discounted cash flow method with the discount rates of 20%, 26% and 28% that were based on the first lien bond rate (23% 31 December 2013) and the repayment periods, compared with the repayment dates of the bonds.

If the discount rate used for the valuation increased by 1%, the fair value of the instruments above would decrease by SEK 19,132 thousand and if the discount rate fell by 1%, the fair value would increase by SEK 20,386 thousand.

The following table shows the fair values as of 31 December 2013 for disclosure purposes, as well as the valuation hierarchy that the valuation of fair value is attributable to:

The Group as at 31 December 2013	Fair value calculated in accordance with level 1	Fair value based on level 2	Fair value based on level 3	Total fair value
Assets and liabilities				
Blocked bank balances	-	98,782	-	98,782
First lien bonds	-1,573,210	-	-	-1,573,210
First lien bond embedded derivatives	-	-2	-	-2
Long-term liabilities to Group companies	-	-	-2,330,094	-2,330,094
Long-term accounts payable	-	-	-630,982	-630,982
Total	-1,573,210	98,780	-2,961,076	-4,435,506

Note 23 Other non-current liabilities

	The Group			Parent company
	2013	2012	2013	2012
Restricted bank funds for bonds and bank guarantees	-	161,967	-	161,967
Restricted bank funds for the benefit of third-party vendors	87,690	128,409	87,690	128,409
Restricted bank balances regarding indemnity for restructuring obligations	11,092	10,932	11,092	10,932
Total	98,782	301,308	98,782	301,308

The escrow account is held with Nordea Bank as a counter-indemnity for an environmental reclamation bond for the Tapuli mine and the Kaunisvaara plant as well as bank guarantees for the main third party suppliers.

The bond escrow account is with Nordea Bank and is pledged on highest priority and is blocked in favour of the bond administrator on behalf of the bond holders. The bank has waived any set-off rights.

Note 24 Inventories

	The Group			Parent company
	2013	2012	2013	2012
<u>Valued at the acquisition value:</u>				
Supplies and spare parts	24,422	29,936	24,112	29,936
<u>Valued at the net realisable value</u>				
Iron ore and concentrate	71,650	8,685	71,650	8,685
Total	96,072	38,621	95,762	38,621

Ore and concentrate are valued at the net realisable value, which is judged to be lower than the cost-based valuation. Due to the short production time, the company is not able to calculate a reliable cost-based valuation.

Note 25 Other current receivables

	The Group		Parent company	
	2013	2012	2013	2012
Restricted bank funds for bonds and bank guarantees *	928	309,359	928	309,359
Restricted bank funds for the benefit of third-party vendors **	113,897	-	113,897	-
Receivables relating to VAT	79,646	121,469	68,375	74,514
Tax assets for diesel tax	38,307	3,319	38,307	3,319
Tax account	23	-	-	-
Other items	24,356	115	89	40
Total	235,237	434,262	221,596	387,232

*The bond escrow account is held with Nordea Bank and is pledged on highest priority and is blocked in favour of the bond administrator on behalf of the bond holders. The bank has waived any set-off rights.

**Refers to bank guarantees for third-party suppliers for contracted building work.

Note 26 Prepaid expenses and accrued income

	The Group		Parent company	
	2013	2012	2013	2012
Prepaid expenses attributable to project financing	-	40,470	-	15,494
Prepaid service charge for the facilities	23,149	15,000	23,149	15,000
Prepaid insurance expenses	7,716	8,011	7,716	8,011
Prepaid logistics expenses	48,212	-	-	-
Prepaid rent	21,512	23,254	1,877	2,077
Accrued interest	109	-	-	-
Accrued income	885	-	885	-
Other items	2,035	932	1,926	932
Total	103,618	87,667	35,553	41,514

Note 27 Cash and cash equivalents

The interest on the bank deposits is variable and based on daily rates. Current investments are made with different periodicities, ranging from 1 day to 3 months. Investments are planned based on the liquidity budget, access to liquid assets and interest rate levels when each investment is made.

Note 28 Provisions for restoration costs

The Group makes full provision for its obligations for the future cost of restoring the Tapuli mine site and its related production facilities on a discounted basis at the time of developing the mine and when using these facilities.

The restoration provision represents the present value of the restoration costs relating to the mine site that are expected to be incurred up to 2028. These provisions have been calculated based on the Group's internal estimates and supported by help from external experts. Assumptions based on the current economic climate have been made, which management believes is a reasonable basis on which to estimate the future outflow of financial resources. These estimates are reviewed regularly to take into account any material changes to these assumptions. However, actual restoration costs will ultimately depend on future market prices for the necessary restoration works, which will reflect market conditions at the relevant time. Furthermore, the timing of the restoration work is likely to depend on when the mine ceases to produce at economically viable rates.

The comparative figure for the parent company for 2012 has changed. See details in note 1.

Changes to the provisions are described below:

	The Group		Parent Company	
	2013	2012	2013	2012
Opening provision	187 374	2 264	-	-
Additions during year 1)	51 189	185 110	30 111	-
Effect of time value	4 345			
Closing provision	242 908	187 374	30 111	-

¹⁾ Of which MSEK 31 (185) has been posted to the acquisition value of property, plant and equipment in accordance with IAS 16 and MSEK 20 (0) is production-related provisions that have affected the statement of comprehensive income (cost of goods sold).

²⁾ For the Parent Company, SEK 30 million (0) is production-related provisions charged to the income statement (cost of goods sold). The accounting principle for restoration costs in the parent company has been changed from and including 2013 and the comparative figures for 2012 have been amended in accordance with the new policy. Previously, the same principle used in the Group was applied. The restructuring of 2012 did not affect reported earnings or shareholders' equity.

Note 29 Deferred tax liability

The table below specifies the items for which the deferred tax assets and liabilities are

attributable to:

	The Group			Parent company
	2013	2012	2013	2012
<u>Deferred tax liabilities relating to:</u>				
-Losses carried forward	559,911	122,651	8,817	8,324
-Liabilities for restructuring costs	44,946	41,222		
<u>Deferred tax liabilities relating to:</u>				
-Capitalised interest	-116,127	-114,401	-	-
-Facilities with finance leasing	-8,817	-8,324	-8,817	-8,324
-Capitalised restoration costs	-43,285	-41,148	-	-
-Revaluation for long-term liabilities	-654,617	-	-	-
Total	-217,989	-	-	-

As at 31 December 2013 the Group had tax loss carry forwards amounting to SEK 2,522 million (981.4 million). These losses relate to Group units with historic losses in Sweden, 93.4% (92.5%) and in Norway 6.6% (7.5%). All loss carry forwards have, accounting terms, been used against deferred tax expenses in the Group.

The parent company's total tax assets relating to losses carried forward amount to MSEK 503,009 (MSEK 224,881), the used part amounting to MSEK 9 (MSEK 8), which corresponds to deferred tax liabilities.

Note 30 Borrowings

Regarding the conditions for bonds, liabilities to affiliated companies and other payables, refer to note 13.

	The Group		Parent company	
	2013	2012	2013	2012
Interest-bearing liabilities				
<u>Long-term liabilities</u>				
Bond loan (First lien bond)	1,738,028	2,304,713	1,738,028	2,304,713
Liabilities relating to finance leasing	102,810	116,867	102,810	116,867
Liabilities to Group companies	2,395,951	2,069,375	4,811 389	2,069,375
Other long-term liabilities	669,200	-	1,050 541	-
Total	4,905,989	4,490,955	7,702,768	4,490,955
<u>Current liabilities</u>				
Liabilities relating to finance leasing	25,103	24,685	25,103	24,685
Total interest-bearing liabilities	4,931 092	4,515,640	7,727,871	4,515,640

Here is the carrying value of the non-current liabilities that fall due for payment later than five years after the reporting date:

Liabilities to Group companies	2,395,951	2,069,375	4,813,861	2,069,375
Liabilities relating to finance leasing	26,270	25,238	26,270	25,238
Total	2,422 221	2,094,613	4,840,131	2,094,613

The table below provides a maturity analysis for financial liabilities that shows the maturities of non-discounted future cash flows including interest that is expected on these liabilities:

The Group as at 31 December 2013	Within 1 year	1-5 years	Later than 5 years
<u>Interest-bearing liabilities</u>			
First lien bond	-	-	4,736,495
Reconstructed accounts payable	-	982,489	442,906
Reconstructed Group liabilities	-	-	3,857,547
Financial leasing liabilities	33,072	91,025	33,436
<u>Non-interest-bearing financial liabilities</u>			
Accounts payable	255,023	-	-
Other liabilities	56,161	-	-
Total	344,256	1,073,514	9,070,384

Inter-company debt to NRSA is not included in the above table when it is not expected to be paid, see details in note 13, *Second lien bond*.

The Group as at 31 December 2012	Within 1 year	1-5 years	Later than 5 years
<u>Interest-bearing liabilities</u>			
Second lien bond	314,460	3,375,515	-
Group liabilities			6,367,571
Financial leasing liabilities	32,187	109,291	34,070
Other liabilities	-	49,100	-
<u>Non-interest-bearing financial liabilities</u>			
Accounts payable	809,552	-	-
Other liabilities	140,209	-	-
Total	1,296,408	3,533,906	6,401,641

Note 31 Bond loans

	The Group			Parent company
	2013	2012	2013	2012
First lien bonds	1,738,028	-	1,738,028	-
Second lien bond	-	2,304,713	-	2,304,713
	1,738,028	2,304,713	1,738,028	2,304,713

For information about changes and conditions, see note 13.

Note 32 Liabilities relating to finance lease agreements

The Group has, as a lessee, entered into three finance lease agreements with Caterpillar, Atlas Copco and Vattenfall for trucks, drilling rigs and a 150 KV electricity transformer, which mature within 4-17 years. The trucks are classified as production machines.

The acquisition value of the leased assets amounted to SEK 194,478 thousand (TSEK 192,574) in 2013 and included the initial direct cost. The lease agreements with Caterpillar and Atlas Copco account for 80% of the value of the leased assets, as 20% was paid as a first elevated lease fee, while the assets for Vattenfall correspond to 100% of the value of the leased assets.

The lease liabilities are secured as the rights to the leased assets return to the lessor in the event of non-payment.

The company has a purchase option for acquiring the leased assets at the end of the lease agreement.

Interest rates are determined when the contract is concluded. All leases have fixed repayments and there are no contracts with variable charges. The fair value of lease payments is represented by their carrying value.

	The Group		Parent company	
	2013	2012	2013	2012
The present value of finance lease charges				
-Payments within 1 year	25,103	24,685	25,103	24,685
-Payments between 1 year and 5 years	76,538	91,629	76,538	91,629
-Payments later than 5 years	26,272	25,238	26,272	25,238
	127,913	141,552	127,913	141,552
Lease charges, minimum				
-Payments within 1 year	33,072	32,187	33,072	32,187
-Payments between 1 year and 5 years	91,025	109,291	91,025	109,291
-Payments later than 5 years	33,436	34,070	33,436	34,070
	157,533	175,548	157,533	175,548
Financial expenses for finance leasing	-29,620	-33,996	-29,620	-33,996
Liabilities relating to finance lease agreements	127,913	141,552	127,913	141,552

Note 33 Other non-current liabilities

	The Group			Parent company
	2013	2012	2013	2012
Non-current liabilities to suppliers	669,200	49,100	1,050 541	49,100
Total	669,200	49,100	1,050 541	49,100

Note 34 Accrued costs and prepaid revenues

	The Group			Parent company
	2013	2012	2013	2012
Accrued interest expenses	819	95,796	819	95,796
Accrued production expenses	22,649	7,416	22,649	7,416
Additional trade payables	2,099	1,310	2,099	1,310
Accrued wages	1,817	-	1,817	-
Accrued holiday pay	7,612	3,462	7,483	3,462
Accrued social security contributions	2,546	1,142	2,503	1,142
Accrued legal expenses	1,603	280	1,603	280
Accrued expenses relating to options	-	293	-	293
Other items	247	973	150	874
Total	39,392	110,672	39,123	110,573

Note 35 Pledged assets

	The Group		Parent company	
	2013	2012	2013	2012
For own provisions and liabilities				
<u>Relating to bond loans</u>				
Mortgages	802,650	802,470	802,650	802,470
Corporate mortgages	800,000	800,000	700,000	700,000
Restricted bank deposits*	927	471,326	927	471,326
Shares in subsidiary companies	1,934 050	365,356	128,329	128,329
Loans to subsidiaries	-	-	1,719 146	218,081
Pledged bank deposits**	259,254	201,623	225,508	184,963
Pledged rock crushing equipment	4,000	4,000	4,000	4,000
<u>Relating to restoration obligations</u>				
Restricted bank deposits*	11,092	10,932	11,092	10,932
<u>Relating to obligations to suppliers</u>				
Machines that are owned through finance lease agreements	167,991	183,890	164,146	179,552
Restricted bank deposits*	201,587	128,410	201,587	128,410
Total pledged assets	4,181 551	2,968 007	3,957 385	2,828,063

* Bank deposits are recognized as receivables in the balance sheet.

** Pledged bank deposits are reported as cash and cash equivalents in the balance sheet.

In connection with the entry of the new interims, Northland Resources AB's subsidiaries have guaranteed for Northland Resources AB's payment obligations with respect to the bondholders of the First lien bond. Northland Resources AB and its subsidiaries have guaranteed Northland Resources SA's payment obligations with respect to the bondholders of the Second lien bond. In addition, Northland Resources AB and its subsidiaries have, inter alia, agreed to pledge the company and real estate mortgages as security for Northland Resources AB's payment obligations with respect to the bondholders of the First and Second Lien bonds. Furthermore, as security for the specified bonds, inter-company receivables and bank deposits have also been pledged. Northland Resources AB and its group companies have thus pledged large portions of both their financial and operating assets.

Note 36 Contingent liabilities

Northland Resources AB and its subsidiaries have guaranteed Northland Resources SA's payment obligations with respect to the bondholders of the Second lien bond. As at 31 December 2013, nominal debt, including accrued interest, amounted to SEK 2,468,328.

In October 2013, Malmhallen i Norr AB filed a lawsuit with the District Court against Northland and claims that Northland must pay SEK 2,337 thousand. Northland disputes Malmhallen i Norr AB's claim in its entirety and, and has brought a counter-claim against Malmhallen i Norr AB for the amount of SEK 2,230 thousand.

Note 37 Shares in Group companies

The Group	Contact Number	Registered office	Capital -Equity (%)
Northland Logistics AB	556656-1717	Luleå	100
Northland Logistics AS	997 117 050	Narvik	100

<u>Parent company</u>	Equity ratio%	Voting share%	Number of shares	Book value 2013	Book value 2012
Northland Logistics AB	100	100	1,000	128,329	128,329

NOTE 38Accounts receivable

The main part of the receivable relates to invoicing to our off-take partners. All invoices are paid in the first quarter of 2014.

Note 39 Operating segments

Any information concerning division by segment is not provided as Northland has only one operational activity (the mine in Kaunisvaara) and one product (iron ore concentrate).

Income and intangible and tangible fixed assets per country are specified below:

The Group 2013	Sweden	Norway	Total
Sales to external customers*	637,714	-	637,714
Intangible fixed assets	116,272	-	116,272
Tangible fixed assets	6,144,223	1,531,200	7,675,423
The Group 2012	Sweden	Norway	Total
Sales to external customers	-	-	-
Intangible fixed assets	102,662	-	102,662
Tangible fixed assets	5,244,721	901,743	6,149,464

*Division by country; see the Directors' report on page 4.

Note 40 Events after the end of the financial year

- On 31 January 2014 the Group has signed a leasing arrangement for mobile mine equipment with a major Scandinavian bank for a total amount of USD 25 million.
- On 4 February 2014 the Company and its parent company announced an updated schedule for the funding process because of the fact that the company's production and activities have experienced some unfavourable developments (See Note 2 for more information).
- On 21 March 2014 the Company and its parent company announced the launch of a USD 50-75 million super senior secured bridging bond offering to be issued by Northland Resources AB (publ.) as part of the ongoing refinancing process of the Company and its parent company. The bridging bonds will first be offered on a pro rata basis to existing holders of the Company's outstanding First Lien Bonds, according to the allocation procedure set out in the Term Sheet for the contemplated issue. The company has received subscription commitments of some existing bondholders for the lower sum in the range of USD 50 million, ensuring a successful issue. The bridging bonds shall have a term of 6-12 months and accrue PIK interest at 11% per annum.

The bridging bonds constitute a short-term component of meeting Northland's funding requirement of up to approximately USD 150 million. The Company still aims to secure long-term funding for the entire amount required, and intends to present a long-term financing proposal later in 2014. The proceeds from the Bridge Bonds are expected to provide sufficient liquidity until a long-term financing proposal is in place.

As part of, and subject to, the intended long-term financing proposal, some existing owners of First Lien Bonds agreed to convert approximately USD 60 million of their First Lien holdings either to shares in the ultimate parent company, Northland Resources SA (NRSA), or to a new, unsecured, fully subordinated bond. Such a bond would be issued by the NRSA, have a duration of three years with mandatory conversion into shares at a premium of 35% of the share price at the creation of the new bond, and only give PIK interest. Also as part of and subject to the contemplated long term financing, approximately USD 60-65 million of the company's current liabilities will be converted to shares in NRSA.

Northland has called a bondholders' meeting on 21 March to seek approval from its bondholders to issue the Bridge Bonds on the contemplated terms.

- On March 27 the company and its ultimate parent announced having successfully closed the super senior secured bridge bond offering by Northland Resources AB (publ.). With reference to the press release dated 21 March 2014, the super senior secured bridge bond offering has now been successfully closed. The borrowing amount will be USD 60 million. Settlement of the bond offering is expected to take place on 8 April 2014, and settlement will be subject to approval from existing bondholders at the bondholders' meeting on 4 April 2014.
- On 4 April, the Company and its parent company announced that existing bondholders have accepted the offer of the super-senior secured bonds issued by Northland Resources AB (publ.) in accordance with the statement above. Finalization was subject to the approval of the existing holders of the Company's First and Second Lien Bonds, with a 4/5 and 2/3 majority respectively. A bondholder meeting was held on 4 April 2014. The number present at the meeting was enough to meet the requirements for a quorum. 92 percent of the current holders of the First Lien bonds and 99 percent of the current owners of the Second Lien Bonds voted for the proposal; which was thus adopted.
- During the first quarter of 2014, the company received an unconditional shareholder contribution from the ultimate parent company. 23% of the internal loan, which corresponds to the second lien bond loan in the ultimate parent company, approximately SEK 2.4 billion, was converted to shareholder contributions. This is equivalent to the amount of the second lien bond loan converted into shares of the ultimate parent company.

The consolidated financial statements and the annual report have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and generally accepted accounting principles, and give a true and fair view of the financial position and results of the Group and the Parent Company.

The Directors' report gives a fair review of the operations, financial position and results of the Group and the Parent Company and describes substantial risks and uncertainties that the Group and Parent Company face.

This annual report and the consolidated financial statements will be presented for adoption at the Annual General Meeting on _____ 2014.

Luleå ____ April 2014

Olav Fjell
Chairman

Sissel Danielsson
Board Member

Stefan Månsson
Board Member

Runar Nilsen
Board Member

Elisabeth Nilsson
Board Member

Leif Christian Salomonsen
Board Member

Olli Vaartimo
Board member

Peter Pernlöf
CEO

Our audit report differs from the standard form and was submitted _____ 2014.

Ernst & Young AB

Björn Ohlsson
Chartered Accountant

TRANSLATION FROM THE SWEDISH ORIGINAL

Auditor's report

To the annual meeting of the shareholders of Northland Resources AB (Publ), corporate identity number 556656-1675

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Northland Resources AB (Publ) for the financial year 2013-01-01–2013-12-31.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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 company'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 and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the importance of securing the company's long-term financing. We would particularly draw your attention to the information given in the Directors Report, Note 2 and Note 40 which discloses that there is a need of a long-term funding for the continued operation of the business. A long-term solution will be presented in 2014. These conditions indicate together with the other circumstances mentioned in Note 2, the existence of a material uncertainty about the Company's ability to continue as a going concern. The annual report is prepared based on the going concern assumption, and thus be able to realize its assets and settle its liabilities within the course of ordinary business. If the long-term financing plan will not materialize an impairment of assets could occur.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Northland Resources AB (Publ) for the financial year 2013-01-01–2013-12-31.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinion

We recommend to the annual meeting of shareholders that the profit be in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Luleå April 30 2014

Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant