



**NORDIC
MINING**

ANNUAL REPORT 2006

The Board of Directors' report 2006

Incorporation

Nordic Mining ASA was established through a de-merger from Rocksource ASA. The decision to de-merge and establish Nordic Mining as a stand-alone company within the mining and minerals industry was taken 23 February 2006 by Rocksource's general assembly. The de-merger and the registration of Nordic Mining ASA in the Norwegian Company Register were effective at 8 May 2006.

Rocksource transferred its assets and liabilities related to mining and minerals to Nordic Mining. This include exclusive right to utilize Rocksource's advanced electro magnetic technology (EM-technology) within the mining industry and ownership interests in 4 gold mining licenses in Ecuador. Two of the licences are leased out to another gold mining company for exploration, whereas the other two are followed up directly by Nordic Mining.

Strategy

Nordic Mining will be developed as a mining Company with integrated activities within exploration, extraction and production of high-end industrial minerals and metals. The Company's strategy for further growth is to:

- Explore and develop the Company's existing resources,
- Establish critical mass within operational competence, market network and financial solidity through acquisition of existing mining and minerals companies,
- Extract and produce industrial minerals and metals for advanced and high value purposes,
- Launch new technology for identification of minerals and metals through development of EM-technology,
- Establish rights to new strategic resources of minerals and metals.

Financial performance

As Nordic Mining was registered in 2006, historical figures are not available. Available segment information from Rocksource is not considered to be of informative value as comparison to the 2006 figures.

Nordic Mining has had no operations related to its principal planned activities in 2006 and consequently no ordinary sales income. The main activity has been assessment of business opportunities with a long term perspective.

Consolidated financial statements:

The operating loss for the year was NOK 5.9 million. The Company has a management agreement with Dag Dvergsten AS. For 2006, management fee amounted to NOK 5.2 million. Other operating expenses were NOK 8.2 million, of which non-recurring expenses related to the Gexco/listing processes and the planned acquisition of Rana Gruber

amounted to around NOK 3 million. Other income of NOK 7.5 million was compensation from Gexco's main shareholders in connection with terminated agreements. Net loss for 2006 equalled NOK 5.8 million.

Nordic Mining's balance sheet as of 31 December 2006 was NOK 103.8 million which is approximately 10 times higher than the opening balance in May. The increase is explained by arrangement of bond loan for planned acquisition of Rana Gruber (NOK 85 million) and equity issue with net proceeds of NOK 14.1 million. Cash flow from operating activities was negative with NOK 2.9 million. As per 31 December, cash and cash equivalents amounted to NOK 10.3 million.

The Board of Directors proposes that the year's loss of NOK 5.8 million of the parent company is met by transfers from the share premium account. The Company has no distributable equity as of 31 December 2006.

The Board confirms that the accounts have been prepared on a going concern basis and in compliance with IFRS.

Main activities

The acquisition process related to Gexco AB and efforts regarding listing on the Oslo Stock Exchange

In March 2006, Rocksource entered into an agreement with the main shareholders in Gexco AB to acquire 53.7% of the shares in Gexco and 100% of MoMin AS in exchange for new shares in Nordic Mining. Rocksource entered into this transaction on behalf of Nordic Mining in contemplation of the planned de-merger. On 12 May 2006, Nordic Mining submitted a public offer for all outstanding shares in Gexco in accordance with the agreement. Nordic Mining acquired 100% of the shares in MoMin the same date. The offer to the shareholders in Gexco was conditional on approval by the general assembly of Nordic Mining and on an initial public offering of Nordic Mining shares on the Oslo Stock Exchange.

The main shareholders in Gexco communicated after some time their intent to withdraw from the agreement, and in June 2006 they decided to call on the dispute paragraph in the agreement. The parties agreed to terminate all agreements and further to reverse the previous MoMin acquisition. Nordic Mining withdrew its public offer for all outstanding shares in Gexco. In compensation for the loss incurred on the termination of the agreement, the main shareholders of Gexco have paid NOK 7.5 million to Nordic Mining. The initial public offering process of Nordic Mining on Oslo Stock Exchange was suspended as a result of the termination of the agreements.

Engebøfjellet rutile (TiO₂) deposit

In September 2006, Nordic Mining entered into an agreement with ConocoPhillips Investments Norge AS to acquire their mineral deposit at Engebøfjellet. The deposit contains an ore resource estimated to 380 million tons, with a titanium dioxide content of 3-5 percent. In January 2007, Nordic Mining was granted concession for the acquisition from the Norwegian Ministry of Industry and Trade.

The acquired deposit consists of 9 utmåls which were granted in 1997 after completion of a comprehensive program to map the resources. A total of 50 bore holes (core drilling of approximately 15 000 meters) as well as various trial dressing enrichments have been executed.

Nordic Mining shall develop the Engebø deposit with the aim to establish industrial operations for extraction and production of rutile concentrate (TiO₂). Rutile is an important raw material for production of titanium metal and pigments used in e.g. production of paintings, plastics and paper. Nordic Mining aims to develop the project in close co-operation with local and national authorities as well as industrial partners.

In 2007, environmental impact assessments will be executed in order to evaluate consequences of possible disposal of tailings in the adjacent Førdefjord. Further, studies and tests related to beneficiation and concentration of minerals will be done. The goal is to achieve a TiO₂ grade of 95%. Mine modelling and marked studies will also be performed.

Co-operation with and subsequent acquisition of Gudvangen Stein AS

In September 2006, Nordic Mining and Gudvangen Stein entered into a co-operation agreement with the purpose to further develop production and beneficiation of Gudvangen Stein's anorthosite deposit in Aurland in Sogn and Fjordane. The companies have conducted joint activities related to product development, production methods and applications, in order to explore new market segments and possible measures for strengthening of market activities and logistics.

In March 2007, Nordic Mining has agreed with Nannok AS, the sole shareholder of Gudvangen Stein to acquire 85% of Gudvangen Stein, with an option to buy the remaining 15%. The acquisition is subject to due diligence and financing. Closing is expected before end of May 2007.

Co-operation with Store Norske Spitsbergen Kulkompani AS

Nordic Mining and Store Norske Spitsbergen Kulkompani (SNSK) have entered into a co-operation agreement with the purpose to test EM-technology on SNSK's coal deposits at Svalbard. A work program has been scheduled for 2007.

New mineral claims

In 2006, Nordic Mining has been granted 33 claims for titanium, thorium, tungsten (wolfram), gold and REE-minerals in Norway. The claims give exploration rights for certain minerals in a specific geographical area. Additional claims for tungsten, molybdenum and thorium in Norway and Sweden have been granted in 2007.

In 2007, exploration and geological assessment of several of the claims will be executed, i.a. at Målvika and Laksådalen in Nordland (tungsten) and at Stjernøya in Finnmark and Bureberget in Sweden (thorium).

Equity issue

A rights issue was executed in November 2006, and the number of shares in Nordic Mining was doubled from 14 359 070 to 28 718 140. The issue was done at a price of NOK 1.10 per share. The capital increase was fully subscribed by the Company's shareholders. Net proceeds from the equity issue were NOK 14.1 million.

Planned acquisition of Rana Gruber AS

For a long time Rana Gruber has been a target company in Rocksource/Nordic Mining based on comprehensive strategic assessment. Early 2006, the board of Rana Gruber and Nordic Mining initiated dialogue regarding possible acquisition. The parties had

structured discussions related to possible transaction alternatives and assumptions for valuation. In August 2006, Nordic Mining presented an indicative bid for all the shares in Rana Gruber.

In November 2006, the board of Rana Gruber and Nordic Mining entered into a Letter of Intent. Due diligence was executed, and Nordic Mining arranged a guaranteed bond loan of NOK 85 million for financing of the contemplated acquisition.

18 December 2006, Nordic Mining submitted an offer to the shareholders of Rana Gruber. The offer was recommended by the board of Rana Gruber. In the offer and in the dialogue with management, board and shareholders of Rana Gruber, Nordic Mining emphasised plans for development and investments in order to secure long-term operations. Nordic Mining's offer was conditioned upon acceptance from minimum 67% of the shareholders in Rana Gruber. Further, it was a requirement for the bid that the general assembly and the shareholders' meeting of Rana Gruber resolved certain changes to the articles of association and the shareholders' agreement. The general assembly of Rana Gruber resolved 4 January 2007 not to change the articles of association, and consequently Nordic Mining's share offer was no longer valid.

Corporate governance

Corporate governance in Nordic Mining is defined as processes and control measures established to protect the interests of the Company's shareholders and other stakeholders.

The Board has resolved instructions for the Board and the Managing Director.

The Company has initiated activity to establish trading instructions for primary insiders and insiders, but the instructions are not yet resolved by the Board. In practice, insiders in Nordic Mining are trading in accordance with rules and regulations adopted by the Oslo Stock Exchange.

Organisation, environment, health and safety

For the time being, Nordic Mining has no employees. The Company has entered into a management agreement with Dag Dvergsten AS, and the management team consisting of 3 persons is assigned under the management agreement.

Ivar S. Fossum has been appointed Managing Director of Nordic Mining. Fossum has previously worked with Norsk Hydro, Corrocean and FMC.

Two out of five board members (40%) in Nordic Mining are female. The Company facilitates equal opportunities for professional and personal development and aims over time to have a sound gender balance in management and organisation.

The working environment is considered to be good.

As a mining company, Nordic Mining will strive to hold high standards as regards environment, health and safety. In 2006, the Company's activity had limited impact on the environment.

Financial risk

Financing, cash management and accounting are handled by the CFO with contracted assistance from Accepta AS. The Board of directors has defined levels of authorisation for the Managing Director, and the Managing Director has defined authorisations for the CFO.

Nordic Mining's surplus cash is placed on bank accounts in Norwegian kroner (NOK). For the time being, the Company is not exposed to currency fluctuations.

In 2006, Nordic Mining arranged a bond loan of NOK 85 million with the purpose of financing acquisition of Rana Gruber AS. The loan was established at market terms. As Nordic Mining's offer to the shareholders of Rana Gruber became invalid early January 2007, measures were taken to repay the bond loan. The loan was duly repaid in the beginning of February 2007.

Nordic Mining faces normal business risks related to contractual agreements, primarily with suppliers of various kinds. For the mining industry there is however certain general risk factors which are also applicable for Nordic Mining. The main risk factors include:

- ❖ Mineral exploration involves a high degree of risk, and few properties that are explored, are ultimately developed into producing mines. The long-term profitability of Nordic Mining will in part depend of the cost and success of its exploration program.
- ❖ Nordic Mining has no control over mineral prices, which can be affected by numerous factors like international economic and political development etc.
- ❖ Nordic Mining might require new equity in the future in order to be able to continue the exploration programs and the possible development of its projects. The progress of project development might be affected by issues related to financing.

Shareholders and capital

The total number of outstanding shares at the end of the year was 28 718 140 with face value of NOK 0.10. The number of shares was doubled during the year through a rights issue. The number of shareholders has been stable around 2 700. At year end, approximately 85% of the shares in Nordic Mining were held by Norwegian residents.

Nordic Mining was registered on the Oslo OTC in August 2006. In 2006, the share has traded between NOK 1.00 and NOK 4.00. At year end, the share price was NOK 2.10. In total, approximately 2.5 million shares, corresponding to around 9% of outstanding shares per year-end were traded during 2006.

At extraordinary general assemblies in June and October, the Board got authorisations to submit a total of 7 million new shares in connection with e.g. acquisitions, private placements, option program, and other purposes as decided by the Board. At the end of the year, the authorisations were not utilised.

Nordic Mining has established an option program for key personnel and specially qualified resource persons. This includes issue of shares in accordance with share option agreements entered into with the management company Dag Dvergsten AS. Shares may be issued to persons directly or to a company owned by the person. Share option

agreements are signed for a total of 4 million shares. The agreements are valid till June 2008.

Future prospects

The Board is satisfied that Nordic Mining in 2006 has been well established and has taken strategic initiatives to develop as a mining company. This process will continue. The Company is considered to be a going concern and the annual accounts are drawn up on that basis.

The Company has secured attractive mineral rights and intends to do further exploration in 2007 to clarify geological structures and plans for development.

The Board has resolved that the Company shall apply for listing on Oslo Axess; an authorised market place for shares opening in May 2007 under the direction of Oslo Stock Exchange.

Annual result

The Board proposes that the negative result in the parent company be set against equity:

Reduction of Other equity	NOK	<u>(5 804 681)</u>
Loss for the year	NOK	(5 804 681)

Oslo, 28 March 2007

The Board of Directors
Nordic Mining ASA

Bernhard Mellbye
Chairman

Per Havdal

Dag Dvergsten

Camilla Fiskevoll

Anne Dæhlie

Ivar S. Fossum
CEO

Consolidated Income Statement
for the period from 8 May - 31 December

(Amounts in NOK thousands)	Note	2006 IFRS
Other income	4	7 500
Management fee	21	(5 166)
Other expenses	5	(8 230)
Operating loss		(5 896)
Finance income	7	225
Finance costs	7	(149)
Loss before income tax		(5 820)
Income tax expense	8	-
Loss for the year		(5 820)

Attributable to:

Equity holders of the Company	(5 820)
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**Earnings per share for profit
attributable to the equity holders
of the Company**

Basic and diluted	9	(0.37)
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Consolidated Balance Sheet
for the year ended 31 December

(Amounts in NOK thousands)	Note	2006 IFRS
ASSETS		
Current assets		
Other receivables and prepayments	11	2 280
Short-term restricted cash	12	91 224
Cash and cash equivalents	13	10 275
Total current assets		103 779
TOTAL ASSETS		103 779
EQUITY AND LIABILITIES		
Equity		
Share capital	14	2 872
Additional paid-in-capital		22 095
Accumulated losses		(5 820)
Total equity		19 147
Liabilities		
Current liabilities		
Bond loan	15	80 235
Trade payables		3 148
Accrued liabilities and other short-term debt	16	1 249
Total current liabilities		84 632
TOTAL EQUITY AND LIABILITIES		103 779

Oslo, 28 March 2007

The Board of Directors
Nordic Mining ASA

Bernhard Mellbye
Chairman

Per Havdal

Dag Dvergsten

Camilla Fiskevoll

Anne Dæhlie

Ivar S. Fossum
CEO

Consolidated Statement of Changes in Equity
for the period from 8 May - 31 December

(Amounts in NOK thousands)	Share capital – common shares	Additional paid in capital	Retained losses	Total
Incorporation 8 May 2006	1 436	8 564	-	10 000
Share issuance	1 436	12 687	-	14 123
Share-based payment	-	844	-	844
Loss for the year	-	-	(5 820)	(5 820)
At 31 December 2006	2 872	22 095	(5 820)	19 147

Consolidated Cash Flow Statement
for the period from 8 May - 31 December

(Amounts in NOK thousands)	2006
Operating activities	
Profit before income tax	(5 820)
Share-based expense	844
Amortization of bond interest	9
Interest on restricted cash	(48)
<i>Changes in assets and liabilities:</i>	
Other receivables and prepayments	(2 280)
Trade payables	3 148
Accrued liabilities and other short-term debt	1 249
Net cash used in operating activities	(2 898)
Cash flows from investing activities	
Cash transferred to restricted cash accounts	(10 000)
Net cash used in investing activities	(10 000)
Cash flows from financing activities	
Proceeds from issuance of shares	14 123
Cash contribution at de-merger	10 000
Bond issuance costs	(950)
Net cash from financing activities	23 173
Net increase in cash and cash equivalents	10 275
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the year	10 275
Non-cash transaction:	
Net bond loan proceeds deposited directly to escrow account	81 175

Notes to the Consolidated Financial Statements for the year ended 31 December 2006

Note 1 - GENERAL INFORMATION

Nordic Mining ASA (the Company) and its subsidiary (together "the Group") is focused on exploration, extraction and production of high-end industrial minerals and metals.

Nordic Mining was incorporated on 8 May 2006. The financial statements for 2006 therefore cover the activity since the incorporation date and up to 31 December 2006.

These financial statements have been approved for issue by the Board of Directors on 28 March 2007.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated.

Basis of preparation

The consolidated financial statements of Nordic Mining ASA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. Actual results may differ from these assumptions. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects that period, or in the period of revision and future periods if the revision affects both current and future periods.

The principal accounting policies applied in the preparation of the financial statements are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the subsidiary controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The 100% owned subsidiary Nordic Rutile AS, located in Oslo, has been consolidated. The accounting policies of the subsidiary have been changed when necessary to ensure consistency with the policies adopted by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Segments

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Foreign currency translation

Functional and presentation currency

All the operating entities in the Group have Norwegian kroner as functional currency. The presentation currency of the Group is also Norwegian kroner.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under "Other expenses".

Acquisition of mining and mineral properties and exploration and development of such properties

Mining and Mineral properties

Mining interests represent capitalized expenditures related to the acquisition, exploration and development of mining properties and related plant and equipment. Capitalized costs are depreciated and depleted using a unit of production method over the estimated economic life of the mine to which they relate.

Exploration and development for mineral properties

The Company employs the successful efforts method to account for exploration and development costs. All exploration costs, with the exception of acquisition costs of licenses and direct drilling costs of exploration wells, are charged to expense as incurred.

Drilling costs of exploration wells are temporarily capitalised pending the evaluation of the potential existence of mineral reserves. If reserves are not found, or if discoveries are assessed not to be technically and commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licenses are capitalized and assessed for impairment at each reporting date.

The Company classifies exploration and evaluation of assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of receivables.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and other short-term highly liquid investments with original maturities of three months or less.

Share capital

Ordinary shares are classified as equity.

Share issuance costs that are incremental and directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Interest-bearing liabilities

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loss and borrowings are subsequently measured at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized on the income statement over the period of the interest bearing liabilities. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortisation process.

Derecognition of financial liabilities

The Group derecognizes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished. A financial liability is extinguished when the obligation specified in the contract is discharged or cancelled or when it expires.

Embedded derivatives in borrowings

Borrowings containing prepayment options are evaluated to determine if these options are closely related to the cost instrument or embedded derivatives. In assessing whether the option is closely related, the Group considers whether the exercise price is approximately equal to amortized cost at each exercise date.

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Share-based compensation

Share-based payment transactions

The Company uses share-based, equity settled warrants to compensate service providers. The fair value of the services received is recognized as an expense in the financial statements over the period the options vest. The fair value of options that are fully vested on the grant date are fully recognized in the income statement when granted. Share-based compensation to employees and others providing a similar service is measured by reference to the fair value of equity instruments issued. The Company uses the Black Scholes model to measure the fair value of options and warrants.

Income taxes

Income tax expense represents the sum of the taxes currently payable and deferred tax. Taxes payable are provided based on taxable profits at the current tax rate. Deferred taxes are recognized on differences between the carrying amounts of assets

and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred income tax is not recognized on temporary differences arising from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Revenue recognition

Revenue from mineral sales is based on the value of minerals sold, net of value added tax, and is recognized at the time that mineral ore is delivered to the customer, title and risks of ownership have passed, collection is reasonably assured and the price is reasonably determinable.

The Group has currently no revenues from the sale of minerals.

Financial risk management

Nordic Mining is exposed to some market risk from its activities, primarily exchange rate risk, interest rate risk, credit risk and liquidity risk. Risk management is performed primarily by identifying and evaluating potential risk areas. The Group does not use derivatives to manage financial risks.

Foreign exchange risk

Nordic Mining conducts its exploration and development activities mainly in Norway and to a limited extent internationally. Consequently, foreign exchange risk is limited. Nordic Mining reviews the outstanding balances and transactions in foreign currencies, but has not yet chosen to hedge the foreign currency exposures.

Interest rate risk

Nordic Mining's exposure to interest risk is on bank deposits. The bond loan has a fixed interest rate.

Market risk

The market risks are mainly related to parameters that have impact on investments in mineral properties, such as mineral and metal prices and the legislative and economical framework given by the authorities.

Fair value of financial instruments

The carrying value of cash equivalents, trade receivables and trade payables approximates fair value due to the short period of time to maturity.

Contingent liabilities

Contingent liabilities are defined as:

- a) possible obligations resulting from past events whose existence depends on future events
- b) obligations that are not recognized because it is not probable that they will lead to an outflow of resources
- c) obligations that cannot be measured with sufficient reliability

Contingent liabilities are not recognized on the balance sheet unless arising from assuming assets and liabilities in a business combination. Significant contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Related party transactions

All transactions, agreements and business activities with related parties are conducted according to ordinary business terms and conditions. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence. The Company provides note disclosure for related party transactions and balances.

Earnings per Share

The calculation of basic earnings per share is based on the profit (loss) attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period. The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period, that is:

- The net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares increases the weighted average number of ordinary shares outstanding.

Note 3 - DE-MERGER OF NORDIC MINING

Effective 8 May 2006, Nordic Mining was de-merged from Rocksource. Rocksource transferred NOK 10 million in cash, technology rights related to mining, ownership interests in 4 gold mining licenses in Ecuador and tax loss carry forwards to Nordic Mining as part of the de-merger. Rocksource distributed the shares in Nordic Mining to the Rocksource shareholders on a pro rata basis. The transaction was accounted for as a transaction between parties under common control. The company recorded the assets and liabilities transferred in the de-merger based on the carrying amount of the assets and liabilities in Rocksource's balance sheet at the date of the de-merger.

Tax loss carryforwards of NOK 65.8 million was transferred to Nordic Mining in the de-merger. The predecessor company did not recognize a deferred tax asset since it was not deemed probable that the tax loss carryforward could be utilized. The deferred tax asset not recognized on the de-merger was NOK 18.4 million.

Note 4 – OTHER INCOME

In March 2006, Rocksource, the predecessor company (prior to de-merger) entered into an agreement with the purpose to acquire two other mining companies, Gexco AB and MoMin AS. The agreement stated that the consideration was to be settled in Nordic Mining shares. In June, 2006, the main shareholders in Gexco decided not to complete the agreement and have agreed to compensate Nordic Mining NOK 7.5 million in settlement for the termination of the agreement.

Note 5 - OTHER EXPENSES

(Amounts in NOK thousands)	2006
Wages and salaries ⁽¹⁾	28
Social security costs	4
Share-based compensation ⁽¹⁾	352
Facilities expenses	372
Consultancy and advisors ⁽²⁾	5 241
Other General and Administration Expenses	2 233
Total	8 230

⁽¹⁾ The Company has no employees at 31 December 2006. The CEO, CFO, and Executive Vice-President are in-sourced through the Management agreement with Dag Dvergsten AS.

⁽²⁾ Total share based compensation costs in 2006 was NOK 844 thousand and of this, NOK 492 thousand is related to Dag Dvergsten AS and is included in Management fee (see Note 21 "Related parties and key management").

Note 6 - SHARE-BASED PAYMENT

In June 2006, the extraordinary General Assembly meeting of the Company approved the grant of 4 million equity settled options. However, the Board of Directors had only authorization to issue 3.5 million shares. These options were granted to Dag Dvergsten AS; the management company, key personnel, consultants, and certain Board of Directors members. The options have an exercise price of NOK 6.97 per share and a contractual life of 2 years. The options were fully vested and immediately exercisable from the grant date.

In October 2006, the extraordinary General Assembly authorized the Board of Directors to issue an additional 3.5 million shares for various purposes. The Company used this authorization to approve a previously pending offer of 500 000 stock options based on the same terms as the options granted in June.

	Number of options	2006 Weighted average exercise price (in NOK)
Outstanding on 1 January		
Granted during the year	4 000 000	6.97
Forfeited during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at 31 December	4 000 000	6.97
Exercisable at 31 December	4 000 000	6.97

The average fair value of options granted in 2006 was NOK 0.21. The weighted-average assumptions used to determine the Black Scholes fair value of options granted in 2006 were:

	2006
Volatility	75%
Expected life (in years)	1.95
Risk free interest rate	3.73%
Share price (NOK)	1.91
Exercise price (NOK)	6.97

Expected volatility was calculated based partly on volatility of comparable companies and partly on historical volatility. The options have average remaining contractual maturity of 1.4 years at 31 December 2006. Furthermore, all options have an exercise price of NOK 6.97 per share.

Note 7 - FINANCE INCOME AND FINANCE COSTS

(Amounts in NOK thousands)	2006
Interest on bank deposits	225
Interest expense on bond loan	(149)
Net Finance	76

Note 8 - TAXES

The Group is in the development phase of its projects and is currently incurring tax losses related to its operations. The Company has a total tax loss carry forward of NOK 72.4 million at 31 December 2006 of which NOK 65.8 million was transferred in the de-merger from Rocksource ASA. However, as a result of its history of operating losses, the Company has not recognized a tax asset in the balance sheet.

Income tax expense for the year:

	2006
Current income tax	-
Deferred tax	-
Current income tax for the year	-

The tax effects of temporary differences and tax loss carry forwards are as follows at 31 December 2006:

(Amounts in NOK thousands)	2006	
	Deferred tax assets	Deferred tax liabilities
Tax effect of tax loss carryforwards	20 284	-
Total	20 284	-

The Group did not recognize a tax asset in its balance sheet since there is not convincing evidence that sufficient taxable income will be available to future to allow a utilization of the tax loss carry forward.

Tax loss carry forwards arising in 2006 includes transaction costs of NOK 1 672 thousand related to the share issuance in December 2006 recorded directly to equity. The tax effect of the transaction cost of NOK 468 thousand was not recorded as a deferred tax asset and is not recorded against the transaction cost in equity.

The difference between income tax calculated income tax rate and the tax provision attributable to loss before income taxes was as follows:

(Amounts in NOK thousands)	2006
Profit (Loss) before income tax	(5 820)
Statutory income tax rate	28%
Expected income tax benefit (expense)	1 630
Tax effect of permanent differences	(238)
Tax losses for which no deferred income tax asset was recognized *)	(1 392)
Income tax benefit for the year	-

*) Exclusive of NOK 468 thousand of tax effect of transaction cost recorded directly to equity.

The tax losses can be carried forward indefinitely.

Note 9 - EARNINGS PER SHARE

The calculation of basic earnings per share attributable to ordinary shareholders and diluted earnings per share is based on the following data:

	2006
Earnings (in NOK thousands)	
Loss for the year attributable to ordinary equity holders of the Company	(5 820)
Number of shares	
Weighted average number of ordinary shares outstanding	15 807 043

4 million potentially dilutive share options were not included in calculation of diluted earnings per share, since their effect would be antidilutive for the period presented.

Note 10 – MINING AND MINERAL PROPERTIES

The Company has been granted 33 mineral claims in Norway for titanium, thorium, tungsten, gold and REE-minerals. Applications for further mineral claims are pending approval from the authorities. Exploration programs for several of the claims will commence in 2007.

Mineral rights acquired through government grants have been received without consideration, except for processing and annual fees.

The Company has ownership interests in 4 gold mining licenses in Ecuador. 2 of the mining licenses have been sub-leased and the Company has retained a royalty interest which the counterparty can purchase for USD 5 million. Additionally, the Company will receive an annual lease amount. The other 2 mining licenses are held and managed by the Company.

The carrying amount of the Company's mining and mineral properties is 0 at 31 December 2006.

Note 11 – RECEIVABLES AND PREPAYMENTS

(Amounts in NOK thousands)	2006
Accounts receivables	32
Other receivables	60
Management fee Dag Dvergsten AS, prepayments	2 092
Other prepayments	96
Total other current assets	2 280

Note 12 – RESTRICTED CASH

The Company has deposited the proceeds from the bond loan of NOK 81.2 million (net of underwriter fee of NOK 3.8 million) in a restricted escrow account. Additionally, the Company transferred an additional NOK 10 million to the account. The carrying amount in the restricted cash account was NOK 91.2 million at 31 December 2006. The bond loan was contingent on the completion of the offer to acquire Rana Gruber AS as described in Note 15 "Bond loan" and Note 19 "Business acquisitions and purchases of mineral rights."

The bond loan was repaid in February 2007 with the funds in the escrow account as described in Note 22 "Subsequent events."

Note 13 - CASH AND CASH EQUIVALENTS

(Amounts in NOK thousands)	2006
Bank deposits	10 275
Total cash and cash equivalent	10 275

Note 14 - SHARE CAPITAL

	2006
	Ordinary Shares
Number of shares outstanding:	
Incorporation 8 May 2006	14 359 070
Share issuance	14 359 070
At 31 December	28 718 140

All shares carry equal rights. The par value of the ordinary shares is NOK 0.10 per share.

Share issuances

Rocksource distributed 14 359 070 shares to its shareholders on a proportional basis upon the de-merger of Nordic Mining.

In November 2006, the Company issued 14 359 070 shares to its shareholders for total proceeds of NOK 14.1 million net of directly attributable transaction costs of NOK 1.7 million. NOK 10 million of the proceeds were transferred to an escrow account in December 2006 as part of the financing scheme related to planned acquisition of Rana Gruber AS as described in Note 12 "Restricted cash," Note 15 "Bond loan" and Note 19 "Business acquisitions and purchases of mineral rights."

Note 15 – BOND LOAN

In order to finance the planned acquisition of Rana Gruber, the Company issued a contingent bond loan for a principal amount of NOK 85 million, a nominal interest of 12% and maturity of 5 years. The bond loan was contingent on a completion of the Company's

acquisition of Rana Gruber, and the proceeds from the bond issuance were placed in an escrow account pending the outcome of the acquisition. Directly attributable transaction costs of NOK 4.8 million were included in the initial measurement of the obligation. The carrying amount at 31 December 2006 was NOK 80.2 million. The effective interest on the loan is about 13.6% (see Note 19 "Business Acquisitions and purchases of mineral rights" and Note 22 – "Subsequent Events" for information regarding repayment of the loan in February 2007).

The fair value of the bond loan at 31 December 2006 was approximately NOK 85 million. Since the loan was obtained close to year-end, the bond loan interest approximated the market interest rate at 31 December 2006. The fair value of the bond loan thereby approximated the principal amount of the bond loan.

Note 16 – ACCRUED LIABILITIES AND OTHER SHORT-TERM DEBT

(Amounts in NOK thousands)	2006
Withholding taxes and social security payables	14
Accruals for wages and holiday pay	20
Accruals for expenses	1 215
Total trade and other payables	1 249

Note 17 - SEGMENTS

The Group's activities are focused on the exploration and development of mineral properties. Furthermore, all of the Group's fixed assets are located in Norway. The ownership interests in the 4 gold licences in Ecuador were transferred to Nordic Mining at zero book value in connection with the de-merger from Rocksource.

For management purposes, the Company is organized as one business unit and the internal reporting is structured thereafter. The Company is currently organized as one operating segment.

Note 18 – INVESTMENTS IN SUBSIDIARIES

(Amounts in NOK thousands)	Location	Year incorp.	Share capital	Owner-ship	Equity 31.12.06	Net loss 2006
Nordic Rutile AS	Oslo, Norway	2006	100	100%	100	(15)

Net loss, as disclosed above, has been changed from N GAAP to conform to IFRS.

Note 19 - BUSINESS ACQUISITIONS AND PURCHASES OF MINERAL RIGHTS

Rana Gruber AS

In November 2006, Nordic Mining entered into an agreement with the Board of Directors in Rana Gruber AS ("Rana Gruber") with the intention to purchase all outstanding shares in Rana Gruber. The offer was formally issued on 18 December 2006. The offer was contingent on acceptance from shareholders representing at least 67% of the outstanding shares in Rana Gruber and contingent on certain changes in the bylaws and shareholder agreements.

On 4 January 2007, the shareholders in Rana Gruber did not make the required changes in bylaws and shareholders' agreement. The offer for the shares in Rana Gruber was thus terminated as described by Note 22 "Subsequent Events."

Engebøfjellet rutile deposit

In September 2006, Nordic Mining ASA entered into an agreement with ConocoPhillips Invests Norge AS ("ConocoPhillips") to acquire their mineral deposit at Engebøfjellet in Naustdal municipality in Sogn and Fjordane, Norway. The deposit contains an ore resource estimated to 380 million tons, with a titanium oxide content of 3-5 percent. The acquisition of the mineral rights was contingent on approval of the Norwegian Ministry of Industry and Trade (see Note 22 "Subsequent Events"). The agreed purchase price for the acquisition of the mineral property is NOK 3.2 million. Additionally, the agreement specifies a fixed, contingent consideration that will be paid to the seller if and when commercial production or sales of mineral from the property commence. Nordic Mining has agreed with the seller not to disclose the amount for the contingent consideration. However, compared with brief estimates for total investments related to industrial development of the TiO₂-project (NOK 2 - 3 billion), the contingent liability is limited.

Nordic Mining shall develop the Engebø deposit with the aim to establish industrial operations for extraction and production of rutile concentrate. Rutile is an important raw material for production of titanium metal and pigments used in e.g. production of paintings, plastics and paper. Nordic Mining aims to develop the project in close co-operation with local and national authorities as well as industrial partners.

Note 20 – SHAREHOLDERS

The 20 largest shareholders at 31 December 2006 were:

Shareholders	Number of shares	% Ownership
Dag Dvergsten AS	3 702 245	12.9 %
DNO Invest AS	1 806 442	6.3 %
Jan Sjølie	1 537 628	5.4 %
Lars Kristian Grøndahl	1 152 226	4.0 %
Dexia Banque International	1 001 200	3.5 %
Øystein Madsen	907 052	3.2 %
Balanced Rock AS	900 614	3.1 %
Johnny Hesthammer AS	822 408	2.9 %
Kjell Øivind Hansen	500 000	1.7 %
Skeie Group AS	499 999	1.7 %
Ottar Nakken	450 000	1.6 %
Inventor AS	420 000	1.5 %
Thomas Arthur Collins	418 158	1.5 %
Reidar Jarl Hansen	352 237	1.2 %
Arve Johnsen	340 365	1.2 %
Goldman Sachs International Equity*	326 290	1.1 %
Jo Torsmyr	300 427	1.0 %
Svend Otto Remøe	286 194	1.0 %
Nordea Securities AB*	282 490	1.0 %
Sydbank Segregated Account*	260 009	0.9 %
Top 20 shareholders	16 265 984	56.6 %
Other	12 452 156	43.4 %
Total	28 71 140	100 %

* Client accounts

Note 21 – RELATED PARTIES AND KEY MANAGEMENT

Related party transactions

The Company has entered into a Management agreement with Dag Dvergsten AS, a major shareholder of the Company. The CEO, CFO, and Executive Vice-President are in-sourced through the management agreement. In the period total costs related to this agreement was NOK 5.2 million. Dag Dvergsten AS provides strategic and financial assistance to the Company, directly and through its business network. The management fee covers general management and business development, day-to-day administration as well as coordination of financing and investor relations. Also payment for office costs is included. Total costs including salary, social cost, pension cost and additional benefits in the period for CEO and CFO are NOK 1.3 million (recognised for 6 months period) and NOK 1.6 million (recognised for 9 months period), respectively.

The Company has prepaid NOK 2.1 million of management services to Dag Dvergsten AS and has a payable to Dag Dvergsten AS of NOK 0.3 million at 31 December 2006

The Company has also granted 2 500 000 options to Dag Dvergsten AS. The fair value of NOK 492 047 was recognized in the income statement in 2006 and is included in the management fee above.

Ivar Sund Fossum, the Company's CEO, Lars K. Grøndahl, the Company's CFO, and Jan Sjølie, Executive Vice-President, work for Dag Dvergsten AS, which provides management services for the Company.

The Company has entered into consulting agreements with the board members Per Havdal and Ottar Nakken, and Strategy House AS, a limited company controlled by Bernhard Mellbye, Chairman of the Board. In the period the Company has recognized an expense of NOK 1 million related to these consulting agreements. At 31 December 2006 the Company had a payable to Per Havdal of NOK 119 000 and payables to Ottar Nakken of NOK 282 660.

Compensation of management and Board of Directors members in 2006

The management for hire is provided by Dag Dvergsten AS under the agreement for management services as described above. Correspondingly, management receives salary from Dag Dvergsten AS and not from the Company.

Amounts in NOK	Salary	Other benefits	Pension costs	Share- based expense
Ivar Sund Fossum, CEO	-	-	-	105 620
Lars K. Grøndahl, CFO	-	-	-	64 546
Jan Sjølie, Vice president corporate finance	-	-	-	64 546
Bernhard Mellbye, Chairman of the Board*	-	-	-	-
Anne Dæhlie Board member	-	-	-	-
Camilla Fiskevoll, Board member	-	-	-	-
Per Havdal, Board member*	-	-	-	14 083
Ottar Nakken, Board member*	-	-	-	14 083
Total	-	-	-	262 878

* As described above, the specified individuals have received separate consulting fees from the Company in 2006.

Shareholdings of management and Board of Directors members at 31 December 2006

Name	Title	Number of ordinary shares	% ownership
Ivar Sund Fossum	CEO	181 086	0.6 %
Lars K. Grøndahl	CFO	1 152 226	4.0 %
Jan Sjølie	VP, corporate finance	1 539 628	5.4 %
Bernhard Mellbye	Chairman, Board	121 154	0.4 %
Anne Dæhlie	Board member	-	
Camilla Fiskevoll	Board member	-	
Per Havdal	Board member	-	
Ottar Nakken	Board member	450 000	1.6 %

Options granted to management and Board members

Total options granted to management and Board members in 2006 are shown below. All options were granted with an exercise price of NOK 6.97 per share.

Name	Title	2006
Ivar Sund Fossum	CEO	450 000
Lars K. Grøndahl	CFO	275 000
Jan Sjølie	VP, corporate finance	275 000
Bernhard Mellbye	Chairman, Board	-
Anne Dæhlie	Board member	-
Camilla Fiskevoll	Board member	-
Per Havdal	Board member	60 000
Ottar Nakken	Board member	60 000
Total		1 120 000

Auditor fees

(Amounts in NOK thousands)	2006
Statutory audit	32 500
Other attestation services	-
Tax services	-
Other services	368 000
Total	400 500

Note 22 – SUBSEQUENT EVENTS***Offer to purchase Rana Gruber and related financing***

As described in Note 19 "Business acquisitions and purchases of mineral rights" the Company's offer to purchase all outstanding shares in Rana Gruber was terminated.

The bond loan that had a carrying amount of NOK 80.2 million at 31 December 2006 was repaid at 103% of the principal of NOK 85 million. The Company paid a total of NOK 88.7 million at 7 February of 2007. Loss at settlement of the loan was NOK 7.3 million that will be recognized in the 1st quarter of 2007.

Acquisition of Engebøfjellet rutile deposit

The Company received approval from the Norwegian Ministry of Industry and Trade in January 2007 and completed the acquisition of the mineral rights at Engebøfjellet from ConocoPhillips.

Agreement to purchase Gudvangen Stein AS ("Gudvangen")

In March 2007, Nordic Mining entered into agreement with Nannok Invest AS to purchase 85% of the shares in Gudvangen with an option to purchase the remaining 15%. Gudvangen has an annual production of around 220 000 tons of anorthosite from its mine in Aurland, Norway, and makes different product qualities for export and for the Norwegian market.

The parties intend to finalize the transaction by 31 May 2007 latest, after due diligence is done.

Extraordinary General Assembly 15 March 2007

The extraordinary General Assembly made i.a. the following resolutions:

- Dag Dvergsten was elected as new board member replacing Ottar Nakken. As per 28 March 2007 Dag Dvergsten holds 3,868,755 shares in Nordic Mining (13.5%) through Dag Dvergsten AS and other companies.
- The Company will issue between 1 and 28,718,140 new shares in a rights issue in favour of existing shareholders. The subscription period will be set by the Board of Directors within the period from 22 March to 31 May 2007. The subscription price will be set by the board within a price range of NOK 1.10 and NOK 5.10 per share. A prospectus will be prepared and distributed to the shareholders.
- The share incentive programme was revised and the exercise price will be adjusted to equal the subscription price in the abovementioned rights issue with an addition of 5%.
- The Board of Directors was authorized to issue up to 12,000,000 new shares for various purposes. The subscription price shall not be lower than NOK 1.10 per share. This authorization replaces previous authorizations to issue new shares.

Note 23 – FINANCIAL INFORMATION FROM PERIOD PRIOR TO DE-MERGER FROM ROCKSOURCE

Rocksource's metal and mining segment in the period prior to the de-merger incorporated some of the activities and metal licenses that were subsequently de-merged to form Nordic Mining AS on 8 May 2006. Rocksource's metal and mining segment had the following had the following financial results in the period including 2 quarter 2006:

(Amounts in NOK thousands)	Cumulative per 2 quarter 2006	2005
Other income	-	62
Operating expenses	(1 569)	(781)
Costs related to de-merger	(3 800)	-
Segment loss	(5 369)	(719)

The de-merger process and incorporation of Nordic Mining ASA significantly impacted the segment result allocated to Rocksource's mining and metal segment in 2006. The Company believes that Nordic Mining has refocused its activities subsequent to the demerger and that the segment results allocated to Rocksource's metal and mining segment are not indicative of or comparable to the current activities of the Company.