

COMPANY REGISTRATION NUMBER 05424040

LONDON MINING PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2006

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

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London Mining Plc
Notes to the financial statements (*continued*)
For the year ended 31 December 2006

Country of incorporation of parent company	England and Wales
Legal form	Private limited company
Directors	CR Brown DG Hossie CJ Knight HK Schönwandt
Company secretary	Westco Nominees Limited
Auditors	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL
Registered office	145 - 157 St John Street London EC1V 4PY
Registered number	05424040

London Mining Plc
Chairman's Statement
For the year ended 31 December 2006

Dear shareholders

It is a great pleasure to welcome all of our new shareholders to the company and I am pleased to report that your company has made great progress in 2006 and in the year to date.

After securing a major iron ore deposit in Greenland in 2005, we have acquired and are rehabilitating a former producing iron mine in Sierra Leone. We have also acquired 100% of an operating iron mine in Brazil - an immediate source of cash flow as well as offering excellent potential for expansion to serve both Brazilian domestic and export markets. In addition, we are in advanced discussions about an off-take agreement with a Chinese group.

In recent months, we have raised in excess of USD125 million to fund the acquisition and development of these projects. The company is now quoted on the Oslo OTC market with a full Oslo Børs listing planned for Q3 2007. Based on our internal calculations and recent share issues we think it likely that our market capitalisation could be of the order of USD300 million at that stage

The rapid development of your company from concept to implementation in a little over two years has been achieved by the tremendous efforts and ingenuity of my fellow directors, Chris Brown, Graeme Hossie, Hans Kristian Schönwandt and Malcolm Groat. The outstanding support of our London office administrative team has helped to achieve this success.

The pace of progress continues to be impressive and I look forward to reporting further exciting developments in due course.

London Mining Plc
Chief Executive's Report
For the year ended 31 December 2006

The Group has made great progress in realising the strategy of maximising stakeholder returns by identifying and implementing international projects with superior rates of return.

Isua, Greenland (100%)

Since acquiring the Isua exploration licence in October 2005, London Mining has been undertaking further development and exploration work. A full feasibility study programme for the production of 5mtpa of magnetite concentrate and slurry pipeline was initiated in April 2007 and is expected to be completed in 2009. In July 2006, SGA completed its metallurgical testing of a 47 tonne bulk sample of Isua magnetite ore. It showed that with crushing, grinding, magnetic separation and reverse silica flotation, a final product could be produced with an Fe-content of >71 % and a silica content of <1.5%.

Promet Engineers, based in Perth, Australia, has been commissioned to complete a scoping study on Isua and to determine the most economic way of developing the project. PSI Ltd., based in the USA, has been commissioned to carry out a slurry pipeline conceptual study. An aerial magnetometer survey by Fugro Airborne Surveys, based in Ontario, Canada was commissioned in June 2007. A drilling campaign to upgrade the existing resources and explore for new resources, as well as more detailed field studies, are scheduled to begin in mid-2008.

Marampa, Sierra Leone (100%)

In December 2005, London Mining secured the option over the defunct Marampa iron ore mine in Sierra Leone from Tecsbaco International Incorporated Company Limited and began determining the feasibility and methods for bringing this back into production in the near term. Marampa is a specular hematite mine that was previously in production between 1933 and 1975 and between 1982 and 1985 with an annual production up to 2.5 million tonnes. It is joined to a purpose-built port at Pepel by an 84km long abandoned railway line. A bathymetric survey of the Pepel port area and Pepel Channel to Freetown was completed in December 2005, as well as an engineering survey of the Pepel port in early 2006. The bathymetric survey showed the Pepel Channel is badly silted up to the west and southwest of Tasso Island and would be prohibitively expensive to dredge. The engineering survey showed the ship loader could be repaired as well as the generators, but not the stacker and bucket wheel reclaimer which can be sold as scrap metal. As a result of these studies, London Mining will relocate the stockpile area to the front of the port and to use barges and a floating crane or self unloading barges to load bulk cargo ships in 18m deep waters. A similar logistics solution is already being used by another mining company in Sierra Leone and numerous companies worldwide.

In March 2006, Chinese engineers from Gerchi Strategic Constructions & Parking Co. Ltd studied the condition of the locomotives at the Pepel port and advised on replacement engines and rolling stock.

Also in March 2006, Australian-based Trical Mining & Metallurgical Services completed its metallurgical test work on a one tonne sample air freighted to Australia from the Marampa tailings deposit, which showed the tailings could be upgraded to 65.9-67.0% Fe and 2.9-3.7% SiO₂.

In April 2006, Australian-based Metplant Engineering Services Pty Ltd and Trical assessed the potential of re-establishing a mining operation on the tailings deposit at Marampa. They concluded a mining operation was possible and the best transport solution was to re-use the Marampa to Pepel railway line. UK-based International Mining Consultants also assessed the resources at Marampa and estimated an Indicated tailings resource of 39.4 million tonnes, with further potential for 8.3 million tonnes in five satellite deposits.

In September 2006, with full governmental approvals, the Marampa Mining Licence was assigned to London Mining Co. Ltd, a 100% controlled subsidiary of London Mining Plc.

In October 2006, Trical was commissioned to build a pilot plant in Australia and India. This was shipped out to Sierra Leone and installed on site at Marampa. Eighteen bulk samples of the tailings deposit of approximately 50 tonnes each were excavated in March 2007. These were processed by the pilot plant in April-May 2007. The results are expected in June 2007 and will be used to determine the mass balance of the processing plant and the final plant design.

In May 2007, Gerchi Construction commenced a detailed study of the Marampa to Pepel railway line. This report is expected to be completed in July 2007 and will be used to invite tenders to repair the railway line.

Also in May 2007, Belmont Management was commissioned to complete an environmental report.

London Mining Plc
Chief Executive's Report (*continued*)
For the year ended 31 December 2006

Negotiations have continued with the Government of Sierra Leone regarding the Pepel port and the Marampa-Pepel railway line, as well as to finalise certain detailed terms of the Marampa Mining Licence submitted by the Company. London Mining intends to recommence mining of the tailings deposit in 2008, assuming it can get the full support of the Government of Sierra Leone.

MIL, Brazil (100%)

In May 2006, London Mining completed eight months of negotiations to secure an option over Minas Itatiaiuçu Ltda (MIL), a Brazilian company with an operating itabirite iron ore mine in Minas Gerais state, Brazil. The MIL mine is located about 60km southwest of Belo Horizonte, along a prominent ridge called the Serra Azul (Blue Mountain Range), that in turn makes up part of the Quadrilátero Ferrífero (Iron Quadrangle), a prolific iron ore producing district within Brazil. The only product to be sold by MIL since mining began in 1970 has been the granulado ore (a size classification of iron ore between ¼" and 1" that falls between lump and fines categories), which is used in the local pig iron industry and sold at the mine gate. The rest of the material has been stockpiled and the ratio of the different products has averaged 30% granulado ore, 48% sinter feed fines and 22% pellet feed tailings. London Mining intends to install concentration plants for the sinter feed fines and the pellet feed tailings and to sell these upgraded concentrates within Brazil and overseas. Preliminary testwork on a one tonne sample of the tailings material in May 2006 showed the fines stockpiled material from Brazil can be upgraded to around 66.3% Fe and 2.9% SiO₂.

In May 2007, London Mining acquired 100% of the share capital of MIL and Luciano Ramos (previously with CVRD in general management, project implementation and process engineering roles) was appointed head of London Mining's Brazilian operations. He has since secured the services of four key managers to oversee the expansion of the mine for exports.

Negotiations for port and rail access continued in 2007, as well as further metallurgical test work to define the final design of the process plant. Exports from this mining operation are planned for 2008.

Corporate

In January 2006, London Mining raised £200,000 with a private company, which was used to secure the option over the Marampa mining operation and to expedite the development of this project.

In May 2006, the Company moved from its office in Knightsbridge to its current offices at 47 Charles Street in Mayfair.

In June 2006, London Mining raised a further £461,000 from various investors at 50 pence per share and in addition, issued 78,000 shares at par. It also appointed Hanson Westhouse as its nominated advisor and stockbroker in relation to listing its shares on the AIM market of the LSE.

In August 2006, Hanson Westhouse and London Mining raised £732,300 at £1 per share from various investors and financial institutions and in October 2006, a further £43,650 was raised at £1.20 per share.

Total expenses incurred in issuing shares during the year amounted to £85,038.

In September 2006, London Mining signed an agreement with Shandong Yuansheng International Trading Company Ltd. in Qingdao, China, for Shandong Yuansheng to invest £45 million in London Mining at £2 per share. Shandong also signed a long-term off-take agreement to purchase London Mining's iron ore production. Unfortunately, this investment was delayed in 2006 by various Chinese central governmental approval requirements and in early 2007 as a result of Shandong Yuansheng internal issues. However, negotiations continue in 2007 to finalise a smaller investment by Shandong and revise the off-take agreement as well as with alternative strategic partners on similar terms.

In November and December 2006 the Company placed a total of £950,000 of convertible redeemable secured loan notes of £1 each at par with RAB Capital and applied the proceeds to staged purchase payments for the Marampa Mining lease in Sierra Leone. In February 2007, the Company placed £3 million of convertible secured loan notes with Altima Partners and RAB Capital. Proceeds were applied to a completion guarantee to sign the Sale and Purchase Agreement for the acquisition of Minas Itatiaiuçu Ltda, as well as development work in Sierra Leone and general working capital.

In March 2007 the Company completed a £7.675 million equity financing with Altima Partners at £1 per share to fund Greenland and Sierra Leone feasibility studies and general company development.

London Mining Plc
Chief Executive's Report (*continued*)
For the year ended 31 December 2006

In April 2007 London Mining placed NOK244 million (USD40.5 million) in equity at NOK18 (USD3.00) per share and NOK370 million (USD61.5 million) in a secured 11.5% 5 year redeemable bond, through Oslo-based Pareto Securities.

Funds were used for the acquisition of MIL in Brazil with the remaining portion allocated for the capital expenditure required to significantly increase production.

In May 2007, Malcolm Groat joined the board as Finance Director and Graeme Hossie was promoted to Director of Corporate Development and Deputy Managing Director.

An agreement was entered into by the Company on 28 June 2007 for the acquisition with effect from 1 July 2007 of 49% of the equity of a group holding exploration and mining rights in respect of an iron ore deposit in Mexico. In the event that the Company does not at an agreed future date, within its sole discretion and pursuant to the consideration of a detailed mining plan to be prepared by that group, provide 49% of funding in an amount of up to 7 million US Dollars for the bringing into production of the iron ore deposit, the equity holding of the Company in that group will be reduced to a level of 5%

In line with the Group philosophy of incentivising and rewarding excellence and achievement, the establishment of a Group share option scheme was approved by the Company on 12 July 2007 and 4,450,000 options, each to acquire one Ordinary Share in the Company at an exercise price equal to the quoted share price of the Company on the Oslo OTC market on that date, were issued to directors and certain Group employees under the terms of the scheme.

Your company is aiming to complete a listing on the Oslo Stock Exchange in Q3 2007 and raise further funds for the implementation of production in Sierra Leone and further expansion of the group's resources and projects. We will continue to expand the operating and corporate teams commensurate with the growth of the London Mining Group.

London Mining Plc
The Directors' Report
For the year ended 31 December 2006

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2006.

Principal activities

The principal activity of the Group and Company during the year was mineral exploration and evaluation of potential mining operations.

The Group comprises the Company and subsidiaries located and registered in Canada, Sierra Leone and Brazil. The subsidiaries in Sierra Leone and Brazil were acquired on 29 May 2006 and 10 October 2006 respectively.

Business development

The licence in respect of the Isua magnetite iron ore deposit in Greenland was transferred from Hammersmyth Management Ltd to the Company on 10 May 2006. The Group spent £106,518 on Greenland exploration and evaluation activities during the year.

On 19 May 2006, the Company signed an option agreement to acquire the entire issued share capital of Minas Itatiaiuca Ltda ("MIL"), a company which has as its primary asset an operating iron ore mine in Brazil. During the year, the Company incurred an aggregate cost of 700,000 US Dollars for this option. Negotiations in respect of the acquisition have been conducted throughout the period since that date. The Group spent a total of £829,879 in respect of the proposed acquisition of MIL during the year.

On 9 September 2006, the Company entered into a subscription agreement with Shandong Yuansheng International Trading Co. Limited ("Shandong"). In terms of the subscription agreement, Shandong has agreed to subscribe for 22,500,000 Ordinary Shares in the Company at a subscription price per share of £2.00 upon the satisfaction of certain conditions, one of which being the completion of executed copies of an agreement for the acquisition by the Company of the entire issued share capital of MIL and the underlying land rights pertaining to the operations of that company. This agreement expired in November 2006, but discussions have continued with a view to reaching an agreement on similar terms.

On 15 September 2006, the Group acquired the mining lease in respect of the Marampa iron ore mine in Sierra Leone. This lease expires on 31 January 2030 and may be renewed for further periods as agreed between the Group and the Government of Sierra Leone. The Group spent a total of £2,924,257 on the Sierra Leone project during the year.

Funds in the amount of £1,351,912 (net of issue expenses of £85,038) were raised during the year from the issuing of Ordinary Shares. Details of the respective number of shares issued and consideration received per share are set out in note 19 of the financial statements.

Funds were raised on 20 November 2006 and 20 December 2006 by the issuing at par of 300,000 and 650,000 convertible loan notes of £1 each respectively. The 300,000 convertible loan notes issued on 20 November 2006 were repayable and convertible at a premium of £2.33 each. The obligations of the Company in respect of these convertible loan notes were secured by first legal mortgages, fixed charges and floating charges over all of the tangible and intangible assets of the Group. Further details of the convertible loan notes are set out in note 17 of the financial statements.

Since the end of the financial year, business development activities have continued apace.

Subsequent events and future developments

In January 2007, the Company increased its holding in its Brazilian subsidiary, London Mining Participacoes Ltda, from 99.59% to 99.7% and on 5 April 2007 the remaining minority interest in the subsidiary was acquired by the Company.

A further 3,000,000 secured convertible loan notes of £1 each were issued at par on 5 February 2007, all of which were converted on 30 April 2007 into Ordinary Shares at a ratio of 2.5 Ordinary Shares for every convertible loan note in issue.

London Mining Plc
The Directors' Report (continued)
For the year ended 31 December 2006

Subsequent events and future developments (*continued*)

On conversion of the abovementioned 3,000,000 loan notes, 1,500,000 warrants, each to subscribe for one Ordinary Share in the Company at an exercise price of 125.0 pence at any time between the date of issue thereof and the later of the date falling 365 days after such date of issue and the date falling 365 days after the date of admission of the Ordinary Shares of the Company to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"), were issued to the holders of these loan notes. On 1 May 2007, all of the convertible loan notes outstanding at 31 December 2006 were settled in cash.

On 9 March 2007, funds in the amount of £7,675,000 were raised on the issue of 7,675,000 Ordinary Shares. In addition, 3,837,500 warrants were issued, with each warrant carrying the right to subscribe for one Ordinary Share in the Company at an exercise price of 200 pence at any time between the date of issue thereof and the date falling 365 days after the admission of the Ordinary Shares of the Company to trading on AIM.

Funding in a total amount of 614,008,000 Norwegian Krone ("NOK") was raised in late April 2007, of which NOK 244,008,000 (£20,475,142) was raised by the issue of 13,556,000 Ordinary Shares, which were quoted on the over-the-counter market of the Oslo Stock Exchange, and NOK 370,000,000 (£31,066,957) was raised by the issue of NOK-denominated bonds with a maturity date of 26 April 2012 and a nominal interest rate of 11.5% per annum payable quarterly in arrears.

On 3 May 2007, the Group acquired the entire issued share capital of MIL for an overall purchase price of 89 million US Dollars. Details of the acquisition are set out in note 29 of the financial statements.

Negotiations are underway with regard to the securing of the priority right to use the port and harbour facilities at Pepel on the coast of Sierra Leone and the railway line between the Marampa mine and Pepel for the purposes of exporting iron ore produced by the Marampa mine. An extensive programme of bulk sampling of the tailings reserves at Marampa mine using a pilot plant located at the mine was completed at the end of May 2007. The initial stages of development of the Marampa mine have commenced.

The Company entered into an agreement on 28 June 2007 for the acquisition with effect from 1 July 2007 of 49% of the equity of a group holding exploration and mining rights in respect of an iron ore deposit in Mexico. In terms of the agreement, an amount of 200,000 US Dollars has been paid towards the acquisition and a further 200,000 US Dollars is payable on the provision by the vendors of the equity holding of proof of payment for the exploration and mining rights and proof that the rights are in good standing. The holding of the Company will be diluted from 49% to 5% in the event that the Company does not provide 49% of funding in an amount of up to 7 million US Dollars for the bringing into production of the iron ore deposit. The decision by the Company as to the provision of such funding shall be based on a detailed mining plan which the group in question is obliged to produce by 27 December 2007 and shall be within the sole discretion of the Company.

The establishment of a Group share option scheme was approved by the Company on 12 July 2007 and 4,450,000 options, each to acquire one Ordinary Share in the Company at an exercise price equal to the quoted share price of the Company on the Oslo OTC market on that date, were issued to directors and Group employees on 12 July 2007 in terms of the scheme. The vesting periods applicable to the various groups of options within the total number issued vary. The terms of the scheme accord with standard industry practice for public companies and limit the aggregate amount of conversion rights in issue in the form of scheme options at any one time to a level of 10% of issued share capital.

Review of results

The Group has incurred a loss attributable to equity holders of the parent of £1,091,515 (2005 : £1,109,201). The Group had not commenced commercial production activities by the balance sheet date. The primary elements of the loss are costs incurred to develop the business operations of the Group (other than exploration and evaluation costs specific to identifiable mineral reserves which have been capitalised), administrative expenses (which are principally employment costs and costs of consultants) and interest costs incurred on the convertible loan notes issued during the year. The comparative period is from 14 April 2005 to 31 December 2005.

London Mining Plc
The Directors' Report (continued)
For the year ended 31 December 2006

Review of results (continued)

The loss of the parent company for the year amounted to £1,083,417 (2005 : £1,109,201). The results for 2006 include a non-cash charge for equity settled share based payments of £279,969 (2005 : £Nil).

The directors continue to monitor cost levels closely.

On account of there being no distributable reserves, no dividend will be payable for the year.

Principal risks and uncertainties

The securing of port and railway access in Sierra Leone, as described in note 26 of the financial statements, is a key factor which will potentially affect the economics of the proposed Sierra Leone mining operations. The overall economics of the projects of the Group are fundamentally dependent on international iron ore prices which fluctuate based upon conditions outside the control of the Group.

Charitable and political donations

During the year, the Company made no charitable or political contributions (2005 : £Nil).

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 31 of the financial statements.

Policy and practice on the payment of creditors

Whilst no formal code is adopted, the Company's current policy concerning the payment of its creditors is to:

- settle the terms of payment with creditors when agreeing the terms of each transaction;
- ensure that these creditors are made aware of the terms of payment by the inclusion of relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

At the balance sheet date creditor payment days are 33.1 days.

Events after the balance sheet date

Details of the events after the balance sheet date are contained in note 29 of the financial statements.

Substantial shareholdings

Shareholdings in the Company at 31 December 2006 equal to or greater than 3% of the number of shares in issue at that date were as follows:

Shareholder:	Percentage owned
RAB Special Situations (Master) Fund Limited	29.0%
Benbrack Charkrit Ltd	27.6%
GB Barnes & Associates	13.6%
Dale Wallster	7.9%
Suzanne Wallster	7.9%

London Mining Plc
The Directors' Report (continued)
For the year ended 31 December 2006

Directors

The directors of the Company who served during the year together with their beneficial interests in the ordinary share capital of the Company were:

	At 31 December 2006	At 31 December 2005	At date of appointment
Ordinary Shares of £0.002 each:			
Mr CR Brown	14,000,000	15,500,000	10
Mr DG Hossie	1,400,000	1,500,000	10
Mr CJ Knight	100,000	100,000	-
	<u> </u>	<u> </u>	<u> </u>
Warrants to subscribe for Ordinary Shares:			
Mr CR Brown	-	-	-
Mr DG Hossie	3,500,000	1,000,000	-
Mr CJ Knight	250,000	-	-
Mr HK Schönwandt	150,000	-	-
	<u> </u>	<u> </u>	<u> </u>

Mr CR Brown was appointed as a director on 14 April 2005.
Mr DG Hossie was appointed as a director on 14 April 2005.
Mr CJ Knight was appointed as chairman on 14 June 2005.
Mr HK Schönwandt was appointed as a director on 4 January 2006.

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of the Directors' report.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors have chosen to prepare financial statements for the Group and the Company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

International Accounting Standard 1 requires that the financial statements present fairly for each financial period the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

A fair presentation also requires the directors to:

- select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, and any other events and conditions on the entity's financial position and financial performance.

London Mining Plc
The Directors' Report (continued)
For the year ended 31 December 2006

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the Group's auditors are unaware.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

Signed by order of the directors



CR Brown
Director

Approved by the directors on: 17 July 2007.....

London Mining Plc
Independent Auditor's Report to the shareholders of London Mining Plc
For the year ended 31 December 2006

To the shareholders of London Mining Plc

We have audited the group and parent company financial statements (the "financial statements") of London Mining Plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Equity and the Group and Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report, Chairman's Statement and Chief Executive's Report and consider the implications for our report if we become aware of any apparent misstatements within them.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

London Mining Plc
Independent Auditor's Report to the shareholders of London Mining Plc (*continued*)
For the year ended 31 December 2006

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO STOY HAYWARD LLP

Chartered Accountants
and Registered Auditors
London

July 2007

London Mining Plc
Consolidated income statement
For the year ended 31 December 2006

	Note	Year to 31 December 2006 £	Period to 31 December 2005 £
Revenue		-	-
Operational expenses		(161,838)	(89,628)
Impairment of investment	4	-	(847,048)
Administrative expenses		(830,119)	(175,550)
Operating loss	5	(991,957)	(1,112,226)
Finance income	7	10,522	3,135
Finance costs	8	(110,636)	(110)
Loss on ordinary activities before taxation		(1,092,071)	(1,109,201)
Taxation	9	548	-
Loss for the year		(1,091,523)	(1,109,201)
Attributable to:			
- Equity holders of parent		(1,091,515)	(1,109,201)
- Minority interest		(8)	-
		(1,091,523)	(1,109,201)
Loss per share expressed in pence per share			
Basic	10	(2.20)	(3.64)
Diluted	10	(2.20)	(3.64)

All the activities of the Group and Company are classified as continuing.

The notes on pages 20 – 50 form part of these financial statements

London Mining Plc
Consolidated and company balance sheet
31 December 2006

		As at 31 December 2006		As at 31 December 2005	
	Note	Group £	Company £	Group £	Company £
Assets					
Non-current assets					
Intangible assets	11	3,184,061	1,231,603	308,704	308,704
Property, plant and equipment	12	162,998	162,998	2,585	2,585
Investments	13	-	339,973	-	-
Total non-current assets		<u>3,347,059</u>	<u>1,734,574</u>	<u>311,289</u>	<u>311,289</u>
Current assets					
Receivables	15	917,658	859,053	75,107	75,107
Amount owing by subsidiary	13	-	313,124	-	-
Cash and cash equivalents		285,566	278,921	589,374	589,374
Total current assets		<u>1,203,224</u>	<u>1,451,098</u>	<u>664,481</u>	<u>664,481</u>
Total assets		<u>4,550,283</u>	<u>3,185,672</u>	<u>975,770</u>	<u>975,770</u>
Liabilities					
Current liabilities					
Borrowings	16	(2,387,736)	(1,027,036)	-	-
Trade and other payables	18	(801,652)	(786,077)	(184,771)	(184,771)
Total current liabilities		<u>(3,189,388)</u>	<u>(1,813,113)</u>	<u>(184,771)</u>	<u>(184,771)</u>
Non-current liabilities					
Deferred tax liabilities	9	(5,814)	(5,814)	-	-
Total non-current liabilities		<u>(5,814)</u>	<u>(5,814)</u>	<u>-</u>	<u>-</u>
Total liabilities		<u>(3,195,202)</u>	<u>(1,818,927)</u>	<u>(184,771)</u>	<u>(184,771)</u>
Total net assets		<u>1,355,081</u>	<u>1,366,745</u>	<u>790,999</u>	<u>790,999</u>
Capital and reserves attributable to equity holders of the Company					
Share capital	19	101,537	101,537	96,000	96,000
Share premium reserve	20	3,150,731	3,150,731	1,804,200	1,804,200
Other reserves	21	303,296	307,095	-	-
Retained earnings	22	(2,200,716)	(2,192,618)	(1,109,201)	(1,109,201)
		<u>1,354,848</u>	<u>1,366,745</u>	<u>790,999</u>	<u>790,999</u>
Minority interest		233	-	-	-
Total equity		<u>1,355,081</u>	<u>1,366,745</u>	<u>790,999</u>	<u>790,999</u>

These financial statements were approved by the directors and are signed on their behalf by:

CR Brown
Director

July 2007

The notes on pages 20 – 50 form part of these financial statements

London Mining Plc
Consolidated statement of changes in equity
For the year ended 31 December 2006

	Share capital	Share premium reserve	Retained earnings	Equity settled employee benefits reserve	Foreign exchange reserve	Option premium on convertible loan notes	Equity attributable to equity holders of the Company	Minority interest	Total equity
	£	£	£	£	£	£	£	£	£
Changes in equity for period to 31 December 2005									
Loss for the period	-	-	(1,109,201)	-	-	-	(1,109,201)	-	(1,109,201)
Total recognised income and expense for the period	-	-	(1,109,201)	-	-	-	(1,109,201)	-	(1,109,201)
Issue of share capital	96,000	1,804,200	-	-	-	-	1,900,200	-	1,900,200
Balance at 31 December 2005	96,000	1,804,200	(1,109,201)	-	-	-	790,999	-	790,999
Changes in equity for year to 31 December 2006									
Exchange difference on translating foreign operations	-	-	-	-	(3,799)	-	(3,799)	(11)	(3,810)
Loss for the year	-	-	(1,091,515)	-	-	-	(1,091,515)	(8)	(1,091,523)
Total recognised income and expense for the year	-	-	(1,091,515)	-	(3,799)	-	(1,095,314)	(19)	(1,095,333)
Acquisition of subsidiary	-	-	-	-	-	-	-	252	252
Recognition of share-based payments	-	-	-	279,969	-	-	279,969	-	279,969
Issue of convertible loan notes	-	-	-	-	-	33,488	33,488	-	33,488
Deferred tax on issue of convertible loan notes	-	-	-	-	-	(6,362)	(6,362)	-	(6,362)
Issue of share capital	5,537	1,431,569	-	-	-	-	1,437,106	-	1,437,106
Expenses incurred in issuing share capital	-	(85,038)	-	-	-	-	(85,038)	-	(85,038)
Balance at 31 December 2006	101,537	3,150,731	(2,200,716)	279,969	(3,799)	27,126	1,354,848	233	1,355,081

Net expense recognised directly in equity for the year is £3,799 (2005 : £Nil).

The notes on pages 20 – 50 form part of these financial statements

London Mining Plc
Company statement of changes in equity
For the year ended 31 December 2006

	Share capital	Share premium reserve	Retained earnings	Equity settled employee benefits reserve	Foreign exchange reserve	Option premium on convertible loan notes	Equity attributable to equity holders of the Company	Minority interest	Total equity
	£	£	£	£	£	£	£	£	£
Changes in equity for period to 31 December 2005									
Loss for the period	-	-	(1,109,201)	-	-	-	(1,109,201)	-	(1,109,201)
Total recognised income and expense for the period	-	-	(1,109,201)	-	-	-	(1,109,201)	-	(1,109,201)
Issue of share capital	96,000	1,804,200	-	-	-	-	1,900,200	-	1,900,200
Balance at 31 December 2005	96,000	1,804,200	(1,109,201)	-	-	-	790,999	-	790,999
Changes in equity for year to 31 December 2006									
Loss for the year	-	-	(1,083,417)	-	-	-	(1,083,417)	-	(1,083,417)
Total recognised income and expense for the year	-	-	(1,083,417)	-	-	-	(1,083,417)	-	(1,083,417)
Recognition of share-based payments	-	-	-	279,969	-	-	279,969	-	279,969
Issue of convertible loan notes	-	-	-	-	-	33,488	33,488	-	33,488
Deferred tax on issue of convertible loan notes	-	-	-	-	-	(6,362)	(6,362)	-	(6,362)
Issue of share capital	5,537	1,431,569	-	-	-	-	1,437,106	-	1,437,106
Expenses incurred in issuing share capital	-	(85,038)	-	-	-	-	(85,038)	-	(85,038)
Balance at 31 December 2006	101,537	3,150,731	(2,192,618)	279,969	-	27,126	1,366,745	-	1,366,745

The notes on pages 20 – 50 form part of these financial statements

London Mining Plc
Consolidated and company cash flow statement
For the year ended 31 December 2006

	Note	Year to 31 December 2006		Period to 31 December 2005	
		Group £	Company £	Group £	Company £
Cash flows from operating activities					
Net cash flow from operating activities	24	(1,457,560)	(1,573,541)	(155,030)	(155,030)
Interest received		10,522	10,229	3,135	3,135
Interest expense		(112)	(112)	(110)	(110)
Net cash from operating activities		<u>(1,447,150)</u>	<u>(1,563,424)</u>	<u>(152,005)</u>	<u>(152,005)</u>
Cash flow from investing activities					
Investment in subsidiaries, net of cash acquired		-	(317,453)	(14,048)	-
Purchase of trade investment		-	-	-	(14,048)
Payments to acquire intangible fixed assets	24	(993,955)	(569,228)	(308,704)	(308,704)
Purchase of property, plant and equipment		(162,268)	(162,268)	(3,069)	(3,069)
Net cash used in investing activities		<u>(1,156,223)</u>	<u>(1,048,949)</u>	<u>(325,821)</u>	<u>(325,821)</u>
Cash flows from financing activities					
Ordinary Shares issued	24	1,351,912	1,351,912	1,067,200	1,067,200
Convertible loan notes issued		950,000	950,000	-	-
Net cash from financing activities		<u>2,301,912</u>	<u>2,301,912</u>	<u>1,067,200</u>	<u>1,067,200</u>
Net (decrease) increase in cash and cash equivalents		<u>(301,461)</u>	<u>(310,461)</u>	<u>589,374</u>	<u>589,374</u>
Exchange difference on translation		(2,347)	8	-	-
Net funds at beginning of year		589,374	589,374	-	-
Net funds at end of year		<u>285,566</u>	<u>278,921</u>	<u>589,374</u>	<u>589,374</u>

The notes on pages 20 – 50 form part of these financial statements

London Mining Plc
Notes to the financial statements
For the year ended 31 December 2006

1. Accounting policies

IAS 8 requires that management shall use its judgement in developing and applying accounting policies that result in information which is relevant to the economic decision-making needs of users; that are reliable, free from bias, prudent, complete and represent faithfully the financial position, financial performance and cash flows of the entity.

Basis of accounting

These financial statements have been prepared on the basis of a going concern and in line with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) adopted by the European Union and in accordance with applicable United Kingdom Law.

Business segment information in terms of IAS 14 and earnings per share information in terms of IAS 33 are voluntarily disclosed in these financial statements as the Company will commence proceedings for the listing of its Ordinary Shares on a recognised stock exchange in the near future.

The adoption of all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to the operations and effective for annual reporting periods beginning on 1 January 2006 are reflected in these financial statements.

The directors anticipate that the adoption in future periods of those standards which are in issue but not yet effective as at 31 December 2006 will have no material impact on future financial statements.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, that entity or business is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. These results are adjusted, where appropriate, to conform to Group accounting policies. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of entities or businesses acquired or disposed of are included in the Group income statement after or up to the date that control passes respectively. As a consolidated Group income statement is published, an income statement for the parent company is omitted from the Group financial statements by virtue of section 230 of the Companies Act 1985.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. The interest of minority shareholders is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments

In the parent company financial statements, investments are shown at cost less provision for any impairment.

Impairment of non-financial assets

Impairment tests on intangible assets and tangible assets with indefinite useful economic lives are undertaken annually on 31 December.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

1. Accounting policies (continued)

Impairment of non-financial assets (continued)

Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest level group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are reflected separately on the face of the income statement, except to the extent that they reverse gains previously recognised in the statement of changes in equity.

Foreign currencies

Transactions entered into by Group entities in a currency other than the functional currency of that entity are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of Group entities reporting in functional currencies other than sterling in their separate financial statements are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of such entities, including goodwill arising on the acquisition of those entities, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets of such entities at opening rate and the results of these entities at actual rate are recognised directly in equity (the "foreign exchange reserve").

The relevant exchange rates per GB Pound sterling at 31 December 2006 are as follows:

- US Dollars: 1.9659
- Canadian Dollars : 2.2824 (2005: 2.0052)
- Brazilian Reals: 4.18535
- Australian Dollars: 2.4816

Exchange differences recognised in the income statement of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign entity concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or foreign entity concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Share options

Where share options or similar instruments are awarded to employees and other parties providing similar services, the fair value of the options or similar instruments at the date of grant thereof is charged to the income statement over the vesting period of such options or similar instruments. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that ultimately, the cumulative amount recognised over the vesting period is based on the number of options or similar instruments that eventually vest. Market vesting conditions are factored into the fair value of the options or similar instruments granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

1. Accounting policies (continued)

Share options (continued)

Where the terms and conditions of options or similar instruments are modified before they vest, the increase in the fair value of the options or similar instruments, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Operating lease agreements

Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged against profits on a straight line basis over the period of the lease.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the deferred tax asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities (assets) are settled (recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

1. Accounting policies (continued)

Intangible assets

Intangible assets consist of mining leases and options to acquire mining leases, mineral production rights and options to acquire mineral production rights, exploration licences and capitalised exploration and evaluation expenditure, of which capitalised exploration and evaluation expenditure and certain costs incurred to bring mining leases to the condition necessary for such leases to be capable of operating in the manner intended by the management of the Group have been internally generated.

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual or legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

Expenditure on internally generated intangible assets is capitalised if it can be demonstrated that:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- there is an intention to complete the intangible asset and use or sell it;
- the Group is able to use or sell the intangible asset;
- the use or sale of the intangible asset will generate future economic benefits;
- adequate resources are available to complete the development of the intangible asset and the use or sale thereof; and
- expenditure on the intangible asset can be measured reliably.

Expenditure on internally generated intangible assets not meeting these criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

Amortisation is calculated so as to write off the cost of an intangible asset over the useful economic life of that asset. The useful life of mineral rights and related capitalised exploration and evaluation costs is not determined until a mining lease or mineral production right is acquired, with the useful life then being the lesser of the remaining term of such mining lease or mineral production right and the commercial production life of the site in respect of which such mining lease or mineral production right is held.

Amortisation is effected on a straight line or units of production basis with effect from the date on which commercial production activities commence.

Exploration and evaluation

In line with IFRS 6 'Exploration for and Evaluation of Mineral Resources', exploration and evaluation expenditure has been capitalised as an intangible asset. This expenditure comprises:

- acquisition of rights to explore;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

1. Accounting policies (continued)

Exploration and evaluation (continued)

Capitalisation of exploration and evaluation expenditure commences on the acquisition of a right to explore a specific area or evaluate a mineral resource, either by means of the acquisition of an exploration licence or an option to a mineral right and ceases either on the acquisition of a mining lease or mineral production right in respect of that specific area or mineral resource or the making of a decision by management of the Group as to the technical feasibility or economic viability of conducting mining operations in that specific area or extracting the mineral resource being evaluated.

Where it is decided by management of the Group that it is not technically feasible or economically viable to conduct mining operations in a specific area or to extract the mineral resource being evaluated, then capitalised exploration and evaluation expenditure attributable to the exploration and evaluation of that specific area or mineral resource, as the case may be, capitalised up to the date of making such a decision, is written off and any further exploration and evaluation expenditure incurred in respect thereof is charged to profit or loss as and when incurred.

Tangible assets used exclusively in activities in respect of the exploration for and evaluation of mineral resources are classified as property, plant and equipment. Depreciation charges reflecting the consumption of these assets in carrying out such activities are included in exploration and evaluation expenditure.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price thereof, cost of these items includes directly attributable costs and the estimated present value of any future costs of dismantling and removing the items. The corresponding liability is recognised within provisions.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of an item, less its estimated residual value, on a straight-line basis over the expected useful economic life of that item as follows:

- Office equipment 3 years

Items of property, plant and equipment which are not yet in the location and condition necessary for such items to be capable of being operated for the purpose intended by management are classified as capital work in progress and are carried at cost, less any recognised impairment loss. Depreciation is only provided in respect of such items once they are in such location and condition.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in profit or loss.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to such liability.

Financial assets

The Group classifies its financial assets on the basis of the purpose for which the asset has been acquired. All of the financial assets of the Group are classified as Loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary asset, including other receivables and cash and cash equivalents. These assets are carried at cost less any provision for impairment.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

1. Accounting policies (continued)

Financial assets (continued)

Other receivables includes sundry debtors, deposits, claimable VAT balances and amounts due in respect of shares allotted but not yet paid. Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Prepayments are not classified as financial assets, but an amount paid for the exclusive right to acquire the entire share capital of a company has been treated as a financial asset as the amount paid will be deductible from the eventual purchase price payable for such share capital.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost of the financial asset would have been had the impairment not been recognised.

Financial liabilities and equity instruments issued by the Group

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components in accordance with the substance of the contractual arrangement. The amount initially attributed to the liability component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert and using an estimated date of repayment where the contractual arrangement provides for a number of possible repayment dates. Subsequently, the liability component is accounted for as a financial liability measured at amortised cost.

The difference between the net proceeds of the convertible debt and the amount allocated to the liability component is credited directly to equity and is not subsequently remeasured. On conversion, the liability and equity elements are credited to share capital and share premium as appropriate. Costs of issuing the convertible debt are apportioned between the liability and equity components based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The Group classifies its financial liabilities depending upon the purpose for which the liability was incurred. None of the financial liabilities of the Group are held for trading or are designated as at fair value through profit or loss.

The financial liabilities of the Group comprise trade payables and other short-term monetary liabilities as well as bank borrowings, the liability component of convertible debt and contractual payment obligations arising in respect of the acquisition of intangible assets.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

1. Accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Trade payables and other short-term monetary liabilities are recognised at amortised cost. Bank borrowings, the liability component of convertible debt and contractual payment obligations arising in respect of the acquisition of intangible assets are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument giving rise to the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Borrowing costs

No borrowing costs are capitalised at present.

2. Key sources of estimation uncertainty

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Exploration and evaluation costs are capitalised as intangible assets and are assessed for impairment when circumstances suggest that the carrying amount may exceed the recoverable value thereof. This assessment involves judgement as to the likely future commerciality of the asset and when such commerciality should be determined as well as future revenues and costs pertaining to the utilisation of the mining lease or mineral production rights to which such capitalised costs relate and the discount rate to be applied to such future revenues and costs in order to determine a recoverable value.
- While conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future commodity prices, mineral reserves / resources and future development and production costs. Changes in the estimates used can result in significant charges to the income statement.
- In determining the respective liability and equity components of convertible loan notes issued by the Group during the year, it was necessary for management to make assumptions with regard to the market rate of interest which would be payable on a similar debt instrument that did not have a conversion option and the expected date of repayment of the convertible loan notes. As disclosed in the note on events after the balance sheet date, redemption of the convertible loan notes was effected on the day after the date assumed by management to be the date of redemption used to determine the fair value of the liability component of the loan notes. The effect on the valuation of the difference between the estimated date of repayment and actual date of repayment is not considered to be material.
- In determining the fair value of share-based payments made during the year to employees and those parties providing services of a similar nature, a number of assumptions have been made by management. Details of these assumptions are reflected in the note on share-based payment.

3. Segment reporting

Based on risks and returns the directors consider that the primary reporting format is by business segment. The directors consider that there is only one business segment, being mining, extraction and production of iron ore. Therefore the disclosures for the primary segment have already been given in these financial statements.

The secondary reporting format is by geographical analysis. The operations are based in four main geographical areas, being the UK, North America, South America and Africa. The UK is the home country of the parent company.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

3. Segment reporting (continued)

The analysis in the table below is based on the location of the capital expenditure:

Group	Year to 31 December 2006				
	Revenue	Segmental Result	Segmental Assets	Segmental Liabilities	Capital Expenditure
	£	£	£	£	£
UK	-	(1,067,906)	353,098	1,188,968	6,850
North America	-	-	291,057	1,519	106,518
South America	-	(18,060)	846,763	123,211	-
Africa	-	(6,105)	3,059,365	1,875,690	2,924,257
	-	(1,092,071)	4,550,283	3,189,388	3,037,625
Deferred tax liability excluded	-	-	-	5,814	-
	-	(1,092,071)	4,550,283	3,195,202	3,037,625

Group	Period to 31 December 2005				
	Revenue	Segmental Result	Segmental Assets	Segmental Liabilities	Capital Expenditure
	£	£	£	£	£
UK	-	(163,855)	668,477	184,771	4,480
North America	-	(896,076)	184,539	-	198,587
South America	-	-	-	-	-
Africa	-	(49,270)	122,754	-	122,754
	-	(1,109,201)	975,770	184,771	325,821

Company	Year to 31 December 2006				
	Revenue	Segmental Result	Segmental Assets	Segmental Liabilities	Capital Expenditure
	£	£	£	£	£
UK	-	(1,067,906)	353,098	1,188,968	6,850
North America	-	-	291,057	1,519	106,518
South America	-	(16,059)	841,625	113,741	-
Africa	-	-	1,699,892	508,885	971,799
	-	(1,083,965)	3,185,672	1,813,113	1,085,167
Deferred tax liability excluded	-	-	-	5,814	-
	-	(1,083,965)	3,185,672	1,818,927	1,085,167

Company	Period to 31 December 2005				
	Revenue	Segmental Result	Segmental Assets	Segmental Liabilities	Capital Expenditure
	£	£	£	£	£
UK	-	(163,855)	668,477	184,771	4,480
North America	-	(896,076)	184,539	-	198,587
South America	-	-	-	-	-
Africa	-	(49,270)	122,754	-	122,754
	-	(1,109,201)	975,770	184,771	325,821

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

4. Impairment of investment

In the prior period, the Company acquired the entire share capital of Hammersmyth Management Limited for total consideration of £847,048. The directors were unable to allocate any value to the mining assets acquired and accordingly wrote the value down to £Nil. This impairment is shown as a separate line item on the income statement.

5. Operating loss

	Year to 31 December 2006 £	Period to 31 December 2005 £
Operating loss is stated after charging:		
Staff costs including directors' emoluments (see note 6)	538,739	78,434
Depreciation of property, plant and equipment	1,855	484
Impairment of intangible asset	1,411	-
Audit fees	40,630	10,000
Fees paid to auditors for non-audit services relating to pre-flotation activities	12,000	-
Operating lease costs - property	29,863	10,405
Share-based payment to consultant rendering services similar to employees	3,210	-
Foreign exchange differences	28,482	601

6. Staff costs (including directors' emoluments)

	Year to 31 December 2006 £	Period to 31 December 2005 £
Staff costs (including directors' emoluments) comprise:		
Staff other than directors:		
Wages and salaries	25,487	-
Company contribution to private health scheme	171	-
Share-based payment expense	3,611	-
Employer's national insurance contributions	2,832	-
Total cost of staff other than directors	32,101	-
Directors' emoluments:		
Wages and salaries	92,000	26,667
Consulting fees	130,720	48,980
Company contribution to private health scheme	279	-
Share-based payment expense	273,148	-
Employer's national insurance contributions	10,491	2,787
Total directors' emoluments	506,638	78,434
Total staff costs	538,739	78,434

	Year to 31 December 2006 £	Period to 31 December 2005 £
Emoluments of highest paid director	365,117	47,500

There was one employee during the year (2005 : none) and four directors (2005 : three). Other than directors, there were no key management employees.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

7. Finance income	Year to 31 December 2006 £	Period to 31 December 2005 £
Interest revenue from cash and cash equivalents	10,522	3,135
	<u>10,522</u>	<u>3,135</u>
	<u><u>10,522</u></u>	<u><u>3,135</u></u>
8. Finance costs	Year to 31 December 2006 £	Period to 31 December 2005 £
Interest on bank overdrafts	112	110
Interest on convertible loan notes	110,524	-
	<u>110,636</u>	<u>110</u>
	<u><u>110,636</u></u>	<u><u>110</u></u>
9. Taxation	Year to 31 December 2006 £	Period to 31 December 2005 £
Income tax recognised in profit or loss:		
Analysis of charge in year:		
Current tax	-	-
Deferred tax charge relating to temporary timing differences	548	-
	<u>548</u>	<u>-</u>
	<u><u>548</u></u>	<u><u>-</u></u>
Analysis of charge in year:		
Loss on ordinary activities before taxation	(1,092,071)	(1,109,201)
Expected tax charge based on rate of corporation tax in UK of 19%	(207,493)	(210,748)
Expenses not deductible for taxation	80,160	161,195
Temporary differences	548	-
Tax losses carried forward	128,005	49,553
Different tax rates applied in foreign jurisdictions	(672)	-
	<u>548</u>	<u>-</u>
	<u><u>548</u></u>	<u><u>-</u></u>
	Year to 31 December 2006 £	Period to 31 December 2005 £
Income tax recognised directly in equity:		
Arising on transactions with equity participants:		
Initial recognition of equity component of convertible loan notes	6,362	-
	<u>6,362</u>	<u>-</u>
	<u><u>6,362</u></u>	<u><u>-</u></u>

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

9. Taxation (continued)

Deferred tax assets (liabilities) arise from the following:

Group	As at 1 January 2006 £	Charged to income £	Charged to equity £	As at 31 December 2006 £
2006				
Temporary differences				
Convertible loan notes	-	548	(6,362)	(5,814)
	-	548	(6,362)	(5,814)
Unused tax losses and credits				
Tax losses	-	-	-	-
	-	-	-	-
	-	548	(6,362)	(5,814)

Group		Charged to income £	Charged to equity £	As at 31 December 2005 £
2005				
Temporary differences				
Convertible loan notes		-	-	-
		-	-	-
Unused tax losses and credits				
Tax losses		-	-	-
		-	-	-
		-	-	-

Company	As at 1 January 2006 £	Charged to income £	Charged to equity £	As at 31 December 2006 £
2006				
Temporary differences				
Convertible loan notes	-	548	(6,362)	(5,814)
	-	548	(6,362)	(5,814)
Unused tax losses and credits				
Tax losses	-	-	-	-
	-	-	-	-
	-	548	(6,362)	(5,814)

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

9. Taxation (continued)

Deferred tax assets (liabilities) arise from the following (continued) :

Company	Charged to income	Charged to equity	As at 31 December 2005
	£	£	£
2005			
Temporary differences			
Convertible loan notes	-	-	-
	-	-	-
Unused tax losses and credits			
Tax losses	-	-	-
	-	-	-
	-	-	-

Deferred tax balances are presented in the balance sheet as follows:

	As at 31 December 2006		As at 31 December 2005	
	Group £	Company £	Group £	Company £
Deferred tax assets	-	-	-	-
Deferred tax liabilities	(5,814)	(5,814)	-	-
	(5,814)	(5,814)	-	-

Deferred tax assets are only recognised in relation to tax losses and other temporary differences which would give rise to deferred tax assets (deductible temporary differences) where it is considered probable that these assets will be utilised in the foreseeable future.

A deferred tax asset has not been recognised for the following:

	As at 31 December 2006		As at 31 December 2005	
	Group £	Company £	Group £	Company £
Unused tax losses	177,558	175,346	49,553	49,553
Deductible temporary differences	4,560	4,560	-	-
	182,118	179,906	49,553	49,553

There is no limit on the carry forward of the unused tax losses or the deductible temporary differences.

10. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. During the year the Group has issued warrants which represent dilutive potential ordinary shares. At 31 December 2006, the primary condition for conversion of the warrants to Ordinary Shares had not been met and consequently the shares in question are excluded from the diluted earnings per share calculation.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

10. Earnings per share (continued)

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	Year to 31 December 2006		Period to 31 December 2005	
	Earnings	Weighted average no. of shares	Earnings	Weighted average no. of shares
	£		£	
Loss attributable to equity holders of parent	(1,091,515)		(1,109,201)	
Basic EPS	(1,091,515)	49,545,196	(1,109,201)	30,448,873
Effect of dilutive securities	-	-	-	-
Diluted EPS				
Adjusted earnings	<u>(1,091,515)</u>	<u>49,545,196</u>	<u>(1,109,201)</u>	<u>30,448,873</u>
Basic EPS - pence		(2.20)		(3.64)
Diluted EPS - pence		(2.20)		(3.64)

The following potential issues of Ordinary Shares which may be dilutive in future years have been excluded from the calculation of diluted earnings per share for the year as these potential issues are anti-dilutive for the year:

	No. of potential shares
Contingently issuable (see note 19):	
Warrants issued in the prior period	1,000,000
Warrants issued during the year	3,100,000
	<u>4,100,000</u>
Issuable at any time upon election by bond holder (see note 17):	
Convertible loan notes – First Loan notes	1,000,000
Convertible loan notes – Second Loan notes	650,000
	<u>1,650,000</u>
Total	<u>5,750,000</u>

The issuing of 7,675,000 Ordinary Shares on 9 March 2007, 13,556,000 Ordinary Shares on 24 April 2007 and 7,500,000 Ordinary Shares on 30 April 2007, described in the note on events after the balance sheet date, will have a material effect on the weighted average number of shares taken into account in calculating earnings per share in future years.

The issuing of 3,837,500 warrants on 9 March 2007, 1,500,000 warrants on 30 April 2007 and 4,450,000 options on 12 July 2007, with each warrant or option, as the case may be, conferring the right to subscribe for one Ordinary Share in the Company, as described in the note on events after the balance sheet date, may have a material effect on the weighted average number of shares taken into account in calculating earnings per share in future years.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

11. Intangible assets

	Licences and options	Mineral rights and exploration and evaluation costs	Website development	Total
Group	£	£	£	£
Cost				
As at 1 January 2006	122,754	184,539	1,411	308,704
Additions	-	2,963,967	-	2,963,967
Reclassification	(122,754)	122,754	-	-
Impairment	-	-	(1,411)	(1,411)
Net foreign currency exchange differences	-	(87,199)	-	(87,199)
As at 31 December 2006	<u>-</u>	<u>3,184,061</u>	<u>-</u>	<u>3,184,061</u>
Amortisation				
As at 1 January 2006	-	-	-	-
Charge for the year	-	-	-	-
As at 31 December 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value as at 31 December 2006	<u>-</u>	<u>3,184,061</u>	<u>-</u>	<u>3,184,061</u>
Cost				
As at 14 April 2005	-	-	-	-
Additions	122,754	184,539	1,411	308,704
As at 31 December 2005	<u>122,754</u>	<u>184,539</u>	<u>1,411</u>	<u>308,704</u>
Amortisation				
As at 14 April 2005	-	-	-	-
Charge for the period	-	-	-	-
As at 31 December 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value as at 31 December 2005	<u>122,754</u>	<u>184,539</u>	<u>1,411</u>	<u>308,704</u>
Company				
	£	£	£	£
Cost				
As at 1 January 2006	122,754	184,539	1,411	308,704
Additions	-	1,100,634	-	1,100,634
Reclassification	(122,754)	122,754	-	-
Impairment	-	-	(1,411)	(1,411)
Transfer to subsidiary	-	(176,324)	-	(176,324)
As at 31 December 2006	<u>-</u>	<u>1,231,603</u>	<u>-</u>	<u>1,231,603</u>
Amortisation				
As at 1 January 2006	-	-	-	-
Charge for the year	-	-	-	-
As at 31 December 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value as at 31 December 2006	<u>-</u>	<u>1,231,603</u>	<u>-</u>	<u>1,231,306</u>

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

11. Intangible assets (continued)

	Licences and options	Mineral rights and exploration and evaluation costs	Website development	Total
Company (continued)	£	£	£	£
Cost				
As at 14 April 2005	-	-	-	-
Additions	122,754	184,539	1,411	308,704
As at 31 December 2005	122,754	184,539	1,411	308,704
Amortisation				
As at 14 April 2005	-	-	-	-
Charge for the period	-	-	-	-
As at 31 December 2005	-	-	-	-
Net book value as at 31 December 2005	122,754	184,539	1,411	308,704

Mineral rights includes the carrying value of the mining lease in respect of the Marampa iron ore mine in Sierra Leone, which was acquired by the Group on 15 September 2006. The mining lease is held by London Mining Company Limited. An amount of 310,000 US Dollars paid by the Company in respect of an option to acquire the mining lease and deducted from the price payable on acquisition thereof has been charged by the Company to London Mining Company Limited. Included in that amount is an amount of £122,754 representing the cumulative amount paid in respect of the option at the beginning of the year, which was reclassified during the year pursuant to the exercise of the option.

The mining lease expires on 31 January 2030 and may be renewed for further periods as agreed between the Group and the Government of Sierra Leone.

Exploration and evaluation costs represents exploration and evaluation expenditure capitalised in line with IFRS 6. The exploration and evaluation expenditure is attributable to geographic regions as follows:

	North America	Africa	Total
	£	£	£
As at 1 January 2006	184,539	-	184,539
Additions	106,518	409,140	515,658
As at 31 December 2006	291,057	409,140	700,197

The mining lease in respect of the Marampa iron ore mine was acquired on a deferred payment basis, with the vendors thereof having a right of reassignment of the lease until the payment of an amount of 2,675,000 US Dollars on 28 February 2007. On 20 December 2006, a first legal mortgage was passed over the mining lease in respect of the Marampa iron ore mine and the exploration licence in respect of the Isua magnetite iron ore project in Greenland, which includes all of the mineral rights and exploration and evaluation costs, and a first fixed charge was passed over the intellectual property rights of the Group as security for the performance of the obligations of the Group in respect of secured convertible loan notes outstanding at that date.

The right of reassignment over the Marampa mining lease was extinguished on the making of the requisite payment on 28 February 2007.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

12. Property, plant and equipment

Group	Office equipment £	Capital work in progress £	Total £
Cost			
As at 1 January 2006	3,069	-	3,069
Additions	8,261	154,007	162,268
As at 31 December 2006	<u>11,330</u>	<u>154,007</u>	<u>165,337</u>
Depreciation			
As at 1 January 2006	484	-	484
Charge for the year	1,855	-	1,855
As at 31 December 2006	<u>2,339</u>	<u>-</u>	<u>2,339</u>
Net book value as at 31 December 2006	<u>8,991</u>	<u>154,007</u>	<u>162,998</u>
Cost			
As at 14 April 2005	-	-	-
Additions	3,069	-	3,069
As at 31 December 2005	<u>3,069</u>	<u>-</u>	<u>3,069</u>
Depreciation			
As at 14 April 2005	-	-	-
Charge for the period	484	-	484
As at 31 December 2005	<u>484</u>	<u>-</u>	<u>484</u>
Net book value as at 31 December 2005	<u>2,585</u>	<u>-</u>	<u>2,585</u>
Company	£	£	£
Cost			
As at 1 January 2006	3,069	-	3,069
Additions	8,261	154,007	162,268
As at 31 December 2006	<u>11,330</u>	<u>154,007</u>	<u>165,337</u>
Depreciation			
As at 1 January 2006	484	-	484
Charge for the year	1,855	-	1,855
As at 31 December 2006	<u>2,339</u>	<u>-</u>	<u>2,339</u>
Net book value as at 31 December 2006	<u>8,991</u>	<u>154,007</u>	<u>162,998</u>
Cost			
As at 14 April 2005	-	-	-
Additions	3,069	-	3,069
As at 31 December 2005	<u>3,069</u>	<u>-</u>	<u>3,069</u>
Depreciation			
As at 14 April 2005	-	-	-
Charge for the period	484	-	484
As at 31 December 2005	<u>484</u>	<u>-</u>	<u>484</u>
Net book value as at 31 December 2005	<u>2,585</u>	<u>-</u>	<u>2,585</u>

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

12. Property, plant and equipment (continued)

Capital work in progress represents the costs incurred to date in the construction of a pilot plant to be used in the evaluation of samples from the Maramapa iron ore mine tailings during the first quarter of 2007. The plant was established on site in Sierra Leone in a fully operational state by mid-March 2007.

On 20 December 2006, a first fixed charge was passed over all the property, plant and equipment owned by the Group or held by it in terms of any lease or hire purchase arrangement as security for the performance of its obligations in respect of secured convertible loan notes outstanding at that date.

13. Investments

Company	As at 31 December 2006 £	As at 31 December 2005 £
Investments in subsidiaries:		
London Mining Company Limited	279,973	-
London Mining Participacoes Ltda	60,000	-
	<u>339,973</u>	<u>-</u>
Amount owing by subsidiary:		
London Mining Company Limited	313,124	-
	<u>313,124</u>	<u>-</u>

On 29 May 2006 the Company formed a new incorporated subsidiary, London Mining Company Limited, in Sierra Leone at a cost of £22,520. On 31 December 2006, the Company agreed to convert £257,453 of the amount owing by London Mining Company Limited to ordinary shares in that company.

London Mining Participacoes Ltda was incorporated in Brazil on 3 July 2006 on the instructions of the management of the Company. On 10 October 2006 the Company acquired 99.59% of the share capital of London Mining Participacoes Ltda for an amount of £60,000. Other than the issuing at par of 1,000 shares of 1 Real each to the minority shareholder on the formation of the company, no transactions were undertaken by London Mining Participacoes Ltda between the date of its incorporation and the date the Company acquired its holding therein. A payment of £10,000 was made on 22 December 2006 in respect of the subscription of further shares in that company. The funds were only received by London Mining Participacoes Ltda in January 2007, whereupon a further 83,000 shares were issued to the Company, increasing its holding to 99.7%. This amount is reflected as a prepayment as at 31 December 2006.

The amount owing by London Mining Company Limited represents short-term funding repayable on demand.

Group

On 18 October 2005 the Company acquired Hammersmyth Management Limited for a total consideration of:

Cash	£ 14,048
Shares issued (10,000,000 shares @ 8.33p)	833,000
	<u>847,048</u>

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

13. Investments (continued)

In calculating the goodwill on acquisition, the fair value of the net assets acquired was assessed and adjustments from book value were made where necessary. These adjustments are summarised in the following table:

	Book Value	Fair value adjustment	Fair value to the Group
	£	£	£
Intangible assets	27,773	(27,773)	-
Other current assets	723	(723)	-
Other liabilities	(17,150)	17,150	-
	<u>11,346</u>	<u>(11,346)</u>	<u>-</u>
Consideration			847,048
Net assets			-
Goodwill arising			<u>847,048</u>
Impairment			<u>(847,048)</u>
			<u>-</u>

The directors were unable to allocate any value to the net assets acquired and accordingly wrote the value down to £nil.

The cash flow which arose from this acquisition comprised:

Cash consideration	£ 14,048
Cash acquired	-
	<u>14,048</u>

On 20 December 2006, a first fixed charge was passed over all investments held by the Company and any amounts due to the Company by subsidiaries as security for the performance of its obligations in respect of secured convertible loan notes outstanding at that date.

14. Subsidiaries

The Company held investments in the following subsidiary undertakings:

	Ordinary shares held	Country of incorporation	Principal activity
Hammersmyth Management Ltd	100%	Canada	Dormant
London Mining Company Limited	100%	Sierra Leone	Mining
London Mining Participacoes Ltda	99.59%	Brazil	Investment holding company

15. Receivables

	As at 31 December 2006		As at 31 December 2005	
	Group	Company	Group	Company
	£	£	£	£
Directors' current accounts	1,299	1,299	5,337	5,337
Prepayments	872,875	814,621	42,524	42,524
Other receivables	43,484	43,133	27,246	27,246
	<u>917,658</u>	<u>859,053</u>	<u>75,107</u>	<u>75,107</u>

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

15. Receivables (continued)

The directors' current accounts represent amounts withdrawn from the Company by directors. The largest amount outstanding during the period was £3,196 (2005 : £5,337) and by the date of signing the financial statements, all amounts had been repaid.

On 19 May 2006, the Company signed an agreement in terms of which it was granted an exclusive right to acquire the entire issued share capital of Minas Itatiaiuca Ltda ("MIL"), a producer of iron ore in Brazil, in return for the payment of 100,000 US Dollars per month throughout the period of such exclusivity. The initial period of exclusivity was for six months, which was extended in November 2006 to include the period to 14 January 2007. Payments made for the exclusivity right are deductible from the final agreed purchase price payable for the entire issued share capital of MIL but are not refundable to the Group in the event that the acquisition does not occur.

Prepayments includes an amount of £356,071 (700,000 US Dollars) paid in respect of this exclusive right as well as £473,808 of costs incurred in respect of the negotiation of the MIL acquisition agreement. On the occurrence of the acquisition transaction, these costs will be included in the cost of the acquisition, failing which the costs will be recognised in the income statement should no acquisition take place. The acquisition of MIL was effected on 3 May 2007.

An amount of £10,000 transferred to London Mining Participacoes Ltda in December 2006 to subscribe for further shares in that company is reflected as a prepayment as the amount was only received by that company in January 2007 and the additional shares in that company were accordingly only issued during that month.

On 20 December 2006 a first fixed charge was passed over all of the receivables and cash balances of the Company as security for the performance of its obligations in respect of secured convertible loan notes outstanding at that date.

16. Borrowings

	As at 31 December 2006		As at 31 December 2005	
	Group	Company	Group	Company
	£	£	£	£
Current:				
Secured convertible loan notes (see note 17)	1,027,036	1,027,036	-	-
Liability in respect of acquisition of mining lease	1,360,700	-	-	-
	<u>2,387,736</u>	<u>1,027,036</u>	<u>-</u>	<u>-</u>

The liability in respect of the acquisition of the mining lease represents a payment of 2,675,000 US Dollars due on 28 February 2007 for the acquisition of the mining lease in respect of the Marampa iron ore mine in Sierra Leone, which was acquired on 15 September 2006. This liability is interest-free and has been treated as secured asset-specific finance provided by the vendor of the mining lease.

The movement on this liability during the year was as follows:

	2006	2006	2005	2005
	Group	Company	Group	Company
	£	£	£	£
Liability arising on acquisition	1,859,921	-	-	-
Payments made	(421,315)	-	-	-
Net foreign currency exchange differences	(77,906)	-	-	-
	<u>1,360,700</u>	<u>-</u>	<u>-</u>	<u>-</u>

Prior to the effecting of the payment due on 28 February 2007, the vendor of the mining lease has the right to require the reassignment thereof in the event that any due and payable amount is outstanding. The payment due on 28 February 2007 has subsequently been made and the right of reassignment has accordingly been extinguished.

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Notes to the financial statements (continued)
For the year ended 31 December 2006

16. Borrowings (continued)

The deed of assignment in terms of which the mining lease was acquired provides for the making of further payments of 1,400,000 US Dollars on 31 December 2007 and 2,900,000 US Dollars on 31 July 2009. The obligation of the Group to make these payments is conditional upon the occurrence of certain events and these amounts have been reflected as contracted capital commitments. Details of the conditions applicable to the making of these payments are set out in note 26.

17. Secured convertible loan notes

On 20 November 2006, the Company issued 300,000 unsecured convertible loan notes of £1 each at par. These loan notes ("First Loan Notes") are redeemable at a premium of £2.33 each. The Company may give the holders of First Loan Notes notice of its intention to effect redemption thereof at any time, whereupon such holders have the right to accept such redemption or to convert the First Loan Notes which are the subject of such notice into Ordinary Shares. This right of the holders to require conversion in the place of redemption was removed pursuant to the effecting of an amendment to the loan note instrument on 5 February 2007.

Holders of First Loan Notes are entitled to require the redemption thereof, upon giving the requisite notice, on or after the earlier of 30 April 2007 (which date may be extended by mutual agreement between the Company and the holder of the First Loan Notes) or the date on which the Company receives a total of £45 million resulting from the issue of Ordinary Shares. In the event of a change in control of the Company, the holders of First Loan Notes may demand immediate repayment thereof, at the par value of £1.00 each, within a period of sixty days of being notified by the Company of such change in control. No interest is payable on the First Loan Notes. Default interest at the rate of 12% per annum shall, however, be payable on any unpaid amounts due on redemption of First Loan Notes.

At any time before the admission to trading of all the Ordinary Shares of the Company on the Alternative Investment Market of the London Stock Exchange ("AIM"), holders of First Loan Notes may convert each First Loan Note held into Ordinary Shares at a conversion price which is the lesser of £1.00 or the price per share at which the Company issues Ordinary Shares after 20 November 2006, based on a conversion value per First Loan Note of £3.33.

In the event that all of the Ordinary Shares of the Company have not been admitted to trading on AIM or any other stock exchange approved in writing by the holder of a majority of the First Loan Notes by 30 April 2007, the Company shall be liable to pay in cash to each holder of First Loan Notes £0.067 per Loan Note on the first business day of each month between 30 April 2007 and the date on which such admission occurs. The holders of First Loan Notes may elect to receive payment of such amount in the form of Ordinary Shares in substitution for cash.

On 20 December 2006, 650,000 convertible secured loan notes of £1.00 each ("Second Loan Notes") at par were issued.

No interest is payable on the Second Loan Notes where redemption or conversion thereof occurs before 30 April 2007, but interest shall be payable thereafter at a rate of 2% per month on the par value of outstanding Second Loan Notes. Default interest at the rate of 12% per annum will be payable on any overdue unpaid amounts due on redemption of Second Loan Notes or payment of interest thereon.

The Company may give the holders of Second Loan Notes notice of its intention to effect redemption thereof at any time, whereupon such holders have the right to accept such redemption or to convert the Second Loan Notes which are the subject of such notice into Ordinary Shares. Holders of Second Loan Notes are entitled to require the redemption thereof, upon giving the requisite notice, at any time on or after 1 January 2008. In the event of a change in control of the Company, the holders of Second Loan Notes may demand immediate repayment thereof, at the par value of £1.00 each, within a period of sixty days of being notified by the Company of such change in control.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

17. Secured convertible loan notes (continued)

Unredeemed Second Loan Notes are convertible into Ordinary Shares of the Company at par based on a conversion value of £1 each at the option of the holder at any time before the earlier of the date of admission to trading of all the Ordinary Shares of the Company on AIM or the sale of all of the Ordinary Shares in the Company to a third party on terms approved by the holders of the Second Loan Notes. The prior written consent of the majority holder of Second Loan Notes is required for the declaration or distribution of dividends by the Company or its subsidiaries, the effecting of any amendment to the Memorandum and Articles of the Company or the sale, transfer, lease, assignment or disposal of the undertaking, property or assets of the Company or any company within the Group.

At the date of issue of the Second Loan Notes, the First Loan Notes, which were issued on an unsecured basis, were secured over the assets of the Group on the same basis and terms as the Second Loan Notes.

The performance by the Group of its obligations in respect of both the First and Second Loan Notes is secured by a first legal mortgage over the mining lease in respect of the Marampa iron ore mine in Sierra Leone, the exploration licence in respect of the Isua magnetite iron ore project in Greenland and all other freehold or leasehold properties of the Group together with all buildings and fixtures situated thereon, a first fixed charge over all of the Group's property, plant and equipment, investments, receivables, cash balances, intellectual property rights, rights to rental income and interest and a floating charge over the whole undertaking, property, rights and assets of the Group to the extent not secured by the first legal mortgage and first fixed charge.

The net proceeds respectively received from the issues of the First and Second Loan Notes have been split between a liability component and an equity component, representing the residual attributable to the option to convert the liability into equity of the Group, as follows:

	2006	2006	2005	2005
	Group	Company	Group	Company
	£	£	£	£
Proceeds	950,000	950,000	-	-
Equity component (net of deferred tax)	(27,126)	(27,126)	-	-
Deferred tax liability	(6,362)	(6,362)	-	-
Liability component at date of issue	<u>916,512</u>	<u>916,512</u>	-	-
Interest charged	110,524	110,524	-	-
Liability component at 31 December 2006	<u><u>1,027,036</u></u>	<u><u>1,027,036</u></u>	-	-

An effective annual interest rate of 15.6% was assumed to be applicable to similar debt without a conversion option and this rate was used to determine the liability component of the convertible loan notes. In addition, a repayment date of 30 April 2007 was assumed.

All of the First and Second Loan Notes were repaid in cash on 1 May 2007. The assets of the Group securing these Loan Notes were provided in full as security for the obligations of the Group in terms of bonds denominated in Norwegian Krone issued by the Group at the end of April 2007.

18. Trade and other payables

	As at 31 December 2006		As at 31 December 2005	
	Group	Company	Group	Company
	£	£	£	£
Trade payables	159,844	151,323	164,587	164,587
Other taxation and social security	7,732	7,188	5,170	5,170
Accruals	634,076	627,566	15,014	15,014
	<u>801,652</u>	<u>786,077</u>	<u>184,771</u>	<u>184,771</u>

Accruals includes fees in an amount of £508,673 due to a consultant for services rendered in negotiating the acquisition of the mining lease in respect of the Marampa iron ore mine in Sierra Leone.

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For the year ended 31 December 2006

19. Share capital

			As at 31 December 2006 £	As at 31 December 2005 £
Authorised share capital:				
200,000,000 Ordinary Shares of £0.002 each			<u>400,000</u>	<u>400,000</u>
Allotted, called up and fully paid:	As at 31 December 2006 No.	£	As at 31 December 2005 No.	£
Ordinary Shares of £0.002 each	<u>50,690,675</u>	<u>101,381</u>	<u>48,000,000</u>	<u>96,000</u>
Allotted, called up but not yet paid:	As at 31 December 2006 No.	£	As at 31 December 2005 No.	£
Ordinary Shares of £0.002 each	<u>78,000</u>	<u>156</u>	<u>-</u>	<u>-</u>
Total issued share capital:	As at 31 December 2006 No.	£	As at 31 December 2005 No.	£
Ordinary Shares of £0.002 each	<u>50,768,675</u>	<u>101,537</u>	<u>48,000,000</u>	<u>96,000</u>

The Ordinary Shares carry one vote per share. They entitle the holder to share equally in a distribution of the profits or assets of the Company by dividend with all other holders of Ordinary Shares, in proportion to the holders' aggregate holding of all Ordinary Shares.

The movements in share capital and share premium reserve during the year were as follows:

	Issue Price (pence)	Number issued	Consideration received £	Movement for year	
				Share capital £	Share premium £
Balance at 1 January 2006		48,000,000	1,900,200	96,000	1,804,200
Issued for cash under placing	20	1,000,000	200,000	2,000	198,000
Issued for cash under placing	50	922,000	461,000	1,844	459,156
Issued for cash under placing	0.2	78,000	156	156	-
Issued for cash under placing	100	732,300	732,300	1,465	730,835
Issued for cash under placing	120	36,375	43,650	72	43,578
Less: expenses incurred in issuing shares		-	(85,038)	-	(85,038)
Balance at 31 December 2006		<u>50,768,675</u>	<u>3,252,268</u>	<u>101,537</u>	<u>3,150,731</u>

Potential issues of shares:

On 15 March 2006, the Company issued 3 million warrants expiring 31 March 2011, each for 1 Ordinary Share at an exercise price of 20 pence each. The warrants can be redeemed at any time following the admission of the Company's Ordinary Shares to trading on the Alternative Investment Market of the London Stock Exchange ("AIM") up to their expiry date. Rights to 100,000 of these warrants were foregone by the grantee during the year.

On 1 May 2006, the Company issued 100,000 warrants expiring 1 May 2011, each for 1 Ordinary Share at an exercise price of 20 pence each. The warrants can be redeemed at any time following the admission of the Company's Ordinary Shares to trading on AIM.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

19. Share capital (continued)

During the prior period the Company issued 1 million warrants expiring 4 October 2007, each warrant entitling the holder to 1 Ordinary Share at an exercise price of 8.5 pence each. The warrants can be redeemed at any time following the admission of the Company's Ordinary Shares to trading on AIM.

It is the intention that these warrants shall be exercisable with effect from the date of the listing of all of the Ordinary Shares of the Company on any recognised stock exchange, including AIM.

Of an amount of 1 million US Dollars due to a consultant at 31 December 2006 for services provided in the conduct of negotiations with regard to the acquisition of the mining lease in respect of the Marampa iron ore mine in Sierra Leone, 500,000 US Dollars will be settled in Ordinary Shares on the listing of the Company on the main board of the London Stock Exchange, AIM or any other recognised investment exchange, with the number of shares to be issued being determined by reference to the Initial Public Offer price per Ordinary Share immediately prior to such listing.

20. Share premium reserve

	As at 31 December 2006 £	As at 31 December 2005 £
Opening balance	1,804,200	-
Arising on issue of shares	1,431,569	1,804,200
Share issue expenses	(85,038)	-
Closing balance	<u>3,150,731</u>	<u>1,804,200</u>

The share premium reserve holds the balance of consideration received in excess of the par value of Ordinary Shares issued. Share issue costs are set off against this reserve as appropriate.

Details of the number of Ordinary Shares issued during the year and the price per share at which these shares were issued are set out in the note on share capital.

21. Other reserves

	As at 31 December 2006		As at 31 December 2005	
	Group £	Company £	Group £	Company £
Equity settled employee benefits reserve	279,969	279,969	-	-
Foreign exchange reserve	(3,799)	-	-	-
Option premium on convertible loan notes	27,126	27,126	-	-
	<u>303,296</u>	<u>307,095</u>	<u>-</u>	<u>-</u>

The equity settled employee benefits reserve arises when the equity settled payments are charged to the income statement in respect of share options or similar instruments granted to employees and other parties providing similar services. Further information about share-based payments to employees is provided in note 23.

The foreign exchange reserve relates to exchange differences arising on the translation of the transactions of the Group's foreign subsidiaries from their respective functional currencies into sterling in accordance with the accounting policy set out in note 1.

The option premium on convertible loan notes represents the equity component (conversion rights) of the convertible loan notes issued during the year (see note 17).

Details of movements in these reserves are reflected in the statement of changes in equity.

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

22. Retained earnings

Retained earnings represents cumulative net gains and losses recognised in the income statement.

Group	£
As at 1 January 2006	(1,109,201)
Retained loss for the year	(1,091,515)
As at 31 December 2006	<u>(2,200,716)</u>
Group	£
Retained loss for the period	(1,109,201)
As at 31 December 2005	<u>(1,109,201)</u>
Company	£
As at 1 January 2006	(1,109,201)
Retained loss for the year	(1,083,417)
As at 31 December 2006	<u>(2,192,618)</u>
Company	£
Retained loss for the period	(1,109,201)
As at 31 December 2005	<u>(1,109,201)</u>

23. Share-based payment

The Group issues warrants to subscribe for Ordinary Shares in the Company to employees, directors and those parties rendering services similar to those performed by employees.

The following warrants were in issue during the current year and the comparative period:

	Number	Grant date	Expiry date	Exercise price Pence	Fair value at grant date Pence
Issued 3 October 2005	1,000,000	03/10/2005	04/10/2007	8.5	4.311
Issued 15 March 2006	3,000,000	15/03/2006	31/03/2011	20.0	11.717
Issued 1 May 2006	100,000	01/05/2006	01/05/2011	20.0	12.038

With the exception of 60,000 of the warrants granted on 1 May 2006, which are expected to vest in two equal tranches on 8 May 2007 and 8 May 2008 respectively, the estimated vesting date of all of the warrants issued during the current year and comparative period is 30 April 2007.

The weighted average fair value of warrants granted during the year is 11.349 pence (2005 : 4.311 pence).

The fair value of warrants granted has been recognised in accordance with the respective vesting periods applicable to the warrants.

The warrants were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. Expected volatility has been determined on a weighted average basis using the share price volatilities reflected by groups engaged in the mining industry with characteristics similar to those of the Group.

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Notes to the financial statements (continued)
For the year ended 31 December 2006

23. Share-based payment (continued)

The inputs into the model for the respective tranches of warrants granted are as follows:

	Issued 1 May 2006	Issued 15 March 2006	Issued 3 October 2005
Grant date share price (pence)	20.0	20.0	8.333
Exercise price (pence)	20.0	20.0	8.5
Expected volatility	76.50%	73.82%	100%
Estimated weighted average life (months)	51.6	51.6	22.4
Risk-free interest rate	4.61%	4.35%	4.14%

The following reconciles the warrants granted at the beginning and end of the year and the comparative period:

	2006		2005	
	Number of warrants	Weighted average exercise price Pence	Number of warrants	Weighted average exercise price Pence
Opening balance	1,000,000	8.5	-	-
Granted during the year	3,100,000	20.0	1,000,000	8.5
Lapsed during the year	(100,000)	20.0	-	-
Closing balance	<u>4,000,000</u>	<u>17.2</u>	<u>1,000,000</u>	<u>8.5</u>

No warrants were exercised during the year. Due to failure to satisfy applicable vesting conditions, 100,000 warrants lapsed during the year.

24. Notes to the statement of cash flows

	Year to 31 December 2006		Period to 31 December 2005	
	Group £	Company £	Group £	Company £
Cash flow from operating activities				
Loss on ordinary activities before taxation	(1,092,071)	(1,083,965)	(1,109,201)	(1,109,201)
Adjusted for:				
Impairment of intangible asset	1,411	1,411	-	-
Depreciation	1,855	1,855	484	484
Finance income	(10,522)	(10,229)	(3,135)	(3,135)
Finance costs	110,636	110,636	110	110
Unrealised exchange loss	1,077	1,077	-	-
Share based payments expense	279,969	279,969	-	-
Impairment of investment	-	-	847,048	847,048
Operating loss before changes in working capital and provisions	<u>(707,645)</u>	<u>(699,246)</u>	<u>(264,694)</u>	<u>(264,694)</u>
Increase in receivables	(858,215)	(967,235)	(75,107)	(75,107)
Increase in payables	108,300	92,940	184,771	184,771
Cash flow from operating activities	<u>(1,457,560)</u>	<u>(1,573,541)</u>	<u>(155,030)</u>	<u>(155,030)</u>

London Mining Plc
Notes to the financial statements (continued)
For the year ended 31 December 2006

24. Notes to the statement of cash flows (continued)

	Year to 31 December 2006		Period to 31 December 2005	
	Group	Company	Group	Company
Payments to acquire intangible fixed assets	£	£	£	£
Acquisition of intangible fixed assets	(2,963,967)	(1,100,634)	(308,704)	(308,704)
Funded by current borrowings and accruals	1,970,012	531,406	-	-
Payments to acquire intangible fixed assets	<u>(993,955)</u>	<u>(569,228)</u>	<u>(308,704)</u>	<u>(308,704)</u>
	Year to 31 December 2006		Period to 31 December 2005	
	Group	Company	Group	Company
Ordinary Shares issued	£	£	£	£
Issue of equity share capital	5,381	5,381	76,000	76,000
Share premium on issue of equity share capital	1,431,569	1,431,569	991,200	991,200
Share issue expenses	(85,038)	(85,038)	-	-
Ordinary Shares issued	<u>1,351,912</u>	<u>1,351,912</u>	<u>1,067,200</u>	<u>1,067,200</u>

25. Related party transactions

Mr G Hossie, a director of the Company, is a director of Venture Development Partners Limited which during the year invoiced an amount of £125,660 (2005 : £47,500) to the Company in relation to management consultancy services provided. As at 31 December 2006 £Nil remained outstanding (31 December 2005: £4,407).

As reflected in the note on receivables, the amount owing by Mr G Hossie to the Company in the form of the balance on a director's current account at 31 December 2006 was £1,299 (31 December 2005 : £5,337).

Mr D Fraser is a director of London Mining Company Limited and a director of Fraser Turner Limited, which latter company during the year invoiced an amount of £113,365 (2005 : £Nil) to the Company in relation to management consultancy services provided. As at 31 December 2006 £Nil remained outstanding (31 December 2005: £Nil).

In May 2006, the Company signed an option agreement to acquire the entire issued share capital of Minas Itatiaiuçu Ltda ("MIL"), a producer of iron ore in Brazil. On completion of the acquisition, a success fee of 1,500,000 US Dollars is payable to Sereno Minerals (BVI) Ltd in terms of an agreement entered into with the Company on 14 October 2005. Mr G Hossie has a beneficial interest in Sereno Minerals (BVI) Ltd and has declared to the Board the fact that he will be entitled to receive one half of the success fee.

On 9 September 2006, the Company entered into a conditional share sale agreement with Shandong Yuansheng International Trading Co. Limited ("Shandong") and other parties which included companies which are shareholders of the Company and in which Mr C Brown and Mr G Hossie respectively have a beneficial interest. The completion of the agreement was conditional upon the execution of the subscription agreement between the Company and Shandong described in note 28, which agreement expired in November 2006.

The immediate parent and ultimate controlling party of the Group is London Mining Plc (incorporated in England and Wales). Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Apart from the taking up of shares in subsidiaries, the only transaction entered into by the Company during the year with subsidiaries has been the provision of funding to London Mining Company Limited in the amount of £313,124, which amount is outstanding at 31 December 2006.

The key management of the Group at 31 December 2006 consisted solely of the directors of the Company. Details of the remuneration of the directors are set out in note 6.

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For the year ended 31 December 2006

26. Contracted capital commitments

The deed of assignment in terms of which the mining lease in respect of the Marampa iron ore mine was acquired provides for the making of payments of 1,400,000 US Dollars on 31 December 2007 and 2,900,000 US Dollars on 31 July 2009. The obligation of the Group to make these payments is conditional upon the granting by the relevant government authority in Sierra Leone to the Group of a legally binding licence or other arrangement to enjoy the priority right to use the port and harbour facilities at Pepel on the coast of Sierra Leone and the railway line between the Marampa Mine and Pepel and the non-occurrence of any circumstances which the Group adjudges to have the effect of significantly reducing the profitability or economic viability of mining operations conducted in terms of the lease.

The amounts of such payments shall be capitalised as part of the cost of the mining lease as and when made.

Negotiations are currently underway to secure the priority right to use the railway and port and harbour facilities.

27. Operating leases

Operating leases comprise the lease of the Company head office at 47 Charles Street, London, W1J 5EL and the lease of offices in Freetown, Sierra Leone.

During the year, an amount of £29,863 (2005 : £10,405) was recognised in respect of the cost of leasing Company head office premises in London. The lease of head office premises ended on 7 May 2007, but was renewed by mutual agreement. The remaining amount payable in terms of the lease agreement at 31 December 2006 was £14,000.

A lease with a period of 12 months was entered into in respect of office premises situated in Freetown, Sierra Leone on 1 December 2006. The full rental for the term of the lease of 25,000 US Dollars was paid in advance on that date.

28. Contingent liabilities

On 18 July 2006, the Company entered into an agreement with Sereno Minerals (BVI) Ltd, a company in which Mr G Hossie has a beneficial interest. The agreement provides for the payment to Sereno Minerals (BVI) Ltd of a success fee of 2 million US Dollars in respect of each future acquisition or merger made by any member of the Group in Brazil, excluding the acquisition of Minas Itataiuçu Ltda ("MIL"). The fee is payable as to 75% in the form of cash and 25% in the form of Ordinary Shares in the Company. Once the Group has made a second acquisition in Brazil, a royalty of 40 US cents per tonne will be payable by the Company on all sales of iron ore produced by Group projects in Brazil introduced by Sereno Minerals (BVI) Ltd, including the MIL operations and all Group projects within a radius of thirty kilometres of the MIL operation. This fee is in addition to an amount of 1,500,000 US Dollars payable to Sereno Minerals (BVI) Ltd on the acquisition by the Group of the entire issued share capital of MIL described in the note on related party transactions.

In November 2006, a dispute arose between the Company and Sereno Minerals (BVI) Ltd pursuant to the contention by that company that the success fee of 1,500,000 US Dollars payable to it upon completion of the acquisition by the Group of the entire issued share capital of MIL (described in the note on related party transactions) had become due and payable on the grounds that such acquisition had in fact been completed. It is the opinion of the directors that no such completion had been achieved by 31 December 2006 and therefore the success fee is not due and payable as at that date as contended. The success fee became due and payable on 3 May 2007 in any event on the acquisition by the Group of the entire issued share capital of MIL.

In the event that all of the Ordinary Shares of the Company have not been admitted to trading on the Alternative Investment Market of the London Stock Exchange or any other stock exchange approved in writing by the holder of a majority of the convertible loan notes in issue by the Group by 30 April 2007, the Company shall be liable to pay in cash to each holder of First Loan Notes (see note 17) £0.067 per loan note on the first business day of each month between 30 April 2007 and the date on which such admission occurs. The holders of First Loan Notes may elect to receive payment of such amount in the form of Ordinary Shares in substitution for cash. The First Loan Notes were redeemed by means of a cash payment on 1 May 2007.

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Notes to the financial statements (continued)
For the year ended 31 December 2006

28. Contingent liabilities (continued)

On 9 September 2006, the Company entered into a subscription agreement with Shandong Yuansheng International Trading Co. Limited ("Shandong") in terms of which Shandong agreed to subscribe for 22,500,000 Ordinary Shares in the Company at a subscription price per share of £2.00 upon the satisfaction of certain conditions, including the acquisition by the Company of the entire issued share capital of Minas Itatiaiuco Ltda. In terms of the agreement, upon the making of the investment by Shandong, success fees of £2,250,000 and 200,000 US Dollars are payable to external consultants in cash and 2 million warrants, each for one Ordinary Share at an exercise price of 20 pence, will be due to an external consultant as a success fee.

The subscription agreement expired in November 2006, but discussions continued after that date with a view to reaching an agreement on similar terms. It is expected that the success fee structure applicable to the making of an investment by Shandong would be applicable to the making of investments by alternative strategic business partners on similar terms.

29. Events after the balance sheet date

In January 2007, the Company took up 83,000 shares in London Mining Participacoes Ltda, increasing the holding in that company from 99.59% to 99.7%. On 7 February 2007, a loan of £800,000 was made by the Company to London Mining Participacoes Ltda and on 5 April 2007, London Mining Participacoes Ltda became a wholly-owned subsidiary of the Company.

The Company issued 3,000,000 secured convertible loan notes on 5 February 2007, which were converted into 7,500,000 Ordinary Shares on 30 April 2007. On conversion, 1,500,000 warrants, each to subscribe for one Ordinary Share in the Company at an exercise price of 125.0 pence at any time between the date of issue thereof and the later of the date falling 365 days after such date of issue and the date falling 365 days after the date of admission of the Ordinary Shares of the Company to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"), were issued to those holders of loan notes who converted.

On 28 February 2007, the Group paid the amount of 2,675,000 US Dollars due for the acquisition of the mining lease in respect of the Marampa iron ore mine in Sierra Leone, resulting in the right of reassignment held by the vendor of the mining lease being extinguished.

On 9 March 2007, the Company issued 7,675,000 Ordinary Shares at a premium of 99.8 pence each, raising an amount of £7,675,000, as well as 3,837,500 warrants, each to subscribe for one Ordinary Share in the Company at 200 pence at any time between the date of issue thereof and the date falling 365 days after the admission of the Ordinary Shares of the Company to trading on AIM.

On 24 April 2007, 13,556,000 Ordinary Shares were issued at 18 Norwegian Krone ("NOK") each, raising NOK 244,008,000 (£20,475,142). These Ordinary Shares were listed on the over-the-counter (OTC) market of the Oslo Stock Exchange. Share issue expenses in the amount of NOK 15,872,058 (£1,331,854) were incurred and have been paid from the share issue proceeds.

On 26 April 2007, Norwegian Krone - denominated bonds in the amount of NOK 370,000,000 (£31,066,957) with a maturity date of 26 April 2012 and a nominal interest rate of 11.5% per annum payable quarterly in arrears were issued. The obligations of the Group in respect of these bonds are secured over the same assets that constituted security for the obligations of the Group in terms of the convertible loan notes outstanding at 31 December 2006, in addition to the investment in Minas Itatiaiuco Ltda acquired on 3 May 2007.

The Company advanced 25 million US Dollars to London Mining Participacoes Ltda on 26 April 2007 and took up 80,840,000 additional shares in that company for an amount of 40 million US Dollars on 3 May 2007.

On 3 May 2007, the Group acquired the entire issued share capital of Minas Itatiaiuco Ltda ("MIL"), a Brazilian producer of iron ore, for an overall purchase price of 89 million US Dollars. The purchase price comprises a lump-sum payment of 65 million US Dollars due on the date of acquisition and sixteen payments of 1.5 million US Dollars each payable on 30 June and 31 December of each year subsequent to the occurrence of the earlier of the commencement of sales of fines of iron ore from the fines stockpiles situated at MIL, the beginning of operation of a logistic connection enabling the transportation of ore from MIL to a point where it can be loaded on railway trucks in quantities equal to or exceeding one million tonnes per annum and the fourth anniversary of the date of acquisition.

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For the year ended 31 December 2006

29. Events after the balance sheet date (continued)

In terms of applicable legislation in Brazil, MIL is not required to prepare audited financial statements. Pursuant to the acquisition of MIL, audited financial statements of that company are in the process of being prepared, to be used as the basis for accounting for the incorporation of that company into the financial statements of the Group. Given the proximity of the date of acquisition to the date of signing of these Group financial statements, the preparation process in respect of the MIL financial statements has not yet been completed as at the date of such signing and the disclosure of preliminary numbers in respect of MIL may be misleading.

On 1 May 2007, the Company repaid in cash all of the convertible loan notes which were outstanding at 31 December 2006.

On 28 February 2007, the Company entered into an agreement with a company providing consulting services controlled by a director of London Mining Company Limited, in terms of which payments will be made to the company providing the consulting services on the satisfaction of certain criteria relating to the mining lease in respect of the Marampa iron ore mine in Sierra Leone.

An amount of 30,000 US Dollars has been paid on the entering into of the contract and an amount of 750,000 US Dollars is due within five business days of the earlier of the securing of rights to use the port and harbour facilities at Pepel on the coast of Sierra Leone and the priority right to use the railway line between the Marampa mine and Pepel, on the one hand, and the listing by the Company of its Ordinary Shares on the Alternative Investment Market of the London Stock Exchange or other recognised stock exchange, on the other hand. Of that amount, 350,000 US Dollars is due on the earlier of the securing of these port and railway access rights and the raising by the Company of funds in excess of seven million US Dollars. A further 12,500 US Dollars is payable on the securing of the port and rail access rights.

The contract further provides for the payment of an amount of 750,000 US Dollars within five business days of the earlier of the date falling sixty business days after the date of the securing of the aforementioned port and railway access rights and the date of the listing by the Company of its Ordinary Shares on the Alternative Investment Market of the London Stock Exchange or other recognised stock exchange.

Furthermore, within thirty days of the receipt by the Group of proceeds from the first sale by the Group of iron ore from the Marampa iron ore mine, an amount of 500,000 US Dollars shall be due and payable in terms of the agreement and in addition, that number of Ordinary Shares which in aggregate has a value of not less than £500,000 shall be issued to the company providing the consulting services. The contract further provides for the payment of a royalty to that company of 10 US cents per tonne of all iron ore sold from the Marampa mining lease area as well as a royalty determined as the excess of a rate of 5% over the rate payable by the Group to the Government of Sierra Leone on sales of iron ore by the Group, with such excess being capped at a level representing 2% of such turnover.

On 28 June 2007, the Company entered into an agreement for the acquisition with effect from 1 July 2007 of 49% of the equity of a group holding exploration and mining rights in respect of an iron ore deposit in Mexico. An amount of 200,000 US Dollars has been paid in this regard and a further 200,000 US Dollars is payable on the satisfaction of certain conditions by the vendors of the equity holding. In the event that the Company does not at an agreed future date, within its sole discretion and pursuant to the consideration of a detailed mining plan to be prepared by that group, provide 49% of funding in an amount of up to 7 million US Dollars for the bringing into production of the iron ore deposit, the equity holding of the Company in the group will be reduced to a level of 5%.

On 12 July 2007, the Company approved the establishment of a Group share option scheme and 4,450,000 options, each to acquire one Ordinary Share in the Company at an exercise price equal to the quoted share price of the Company on the Oslo OTC market on that date, with differing vesting periods, were issued to directors and certain Group employees under the terms of the scheme.

30. Prior period

The prior period was 14 April 2005 to 31 December 2005.

31. Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

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31. Financial instruments (continued)

The details of the categories of financial instruments of the Group are as follows:

	As at 31 December 2006 £	As at 31 December 2005 £
Financial assets:		
Loans and receivables		
- Directors' current accounts (see note 15)	1,299	5,337
- Other receivables and exclusivity right payments (see note 15)	399,555	27,246
- Cash and cash equivalents	285,566	589,374
	<u>686,420</u>	<u>621,957</u>
Financial liabilities:		
Amortised cost		
- Liability in respect of acquisition of mining lease (see note 16)	1,360,700	-
- Convertible loan notes (see notes 16 and 17)	1,027,036	-
- Trade and other payables (see note 18)	801,652	184,771
	<u>3,189,388</u>	<u>184,771</u>

The Group is exposed through its operations to one or more of the following risks:

- Fair value or cash flow interest rate risk;
- Foreign currency risk;
- Liquidity risk;
- Market price risk; and
- Credit risk.

The financial risk management policies of the Group are employed with the objective of minimising the effect of these risks so as to ensure that the Group continues as a going concern and that returns to stakeholders are maximised. Financial risk management policies are set by the Board following recommendations from the Finance Director. All risks are managed centrally.

The policy for each of the identified risks is described in more detail below.

Fair value and cash flow interest rate risk

Currently, all external Group borrowings (excluding short-term overdraft facilities) are either interest-free or of a fixed rate nature in accordance with Group policy. All borrowings are raised centrally, with subsidiaries having no authority to raise either long-term or short-term borrowings.

Foreign currency risk

Foreign exchange risk arises because the Group has operations located in parts of the world whose functional currency is not the same as the Group's primary functional currency of sterling. The net assets of such operations are exposed to currency risk giving rise to gains or losses on retranslation into sterling. Only in exceptional circumstances will the Group consider hedging its net investments in foreign operations as generally it does not consider that the cash flow risk created from such hedging techniques warrants the reduction in volatility in consolidated net assets.

Foreign exchange risk also arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. Where it is considered that the risk associated with such a transaction is material, then the Company will manage the risk centrally by putting in a place a currency hedging instrument in the name of the Group entity with a financial institution in the country in which that Group entity is located.

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31. Financial instruments (continued)

As foreign operations within the Group are fully reliant on the Company for the provision of funding, where permitted by applicable foreign exchange regulations, transactions between the Company and foreign operations are denominated in the functional currency of the foreign operation so as to minimise the effect of foreign exchange risk on the income statement and cash flows of the foreign operation.

Liquidity risk

The liquidity risk of each Group entity is managed centrally by the Company. All of the Group entities are fully dependent on the Company for provision of all funding requirements and these entities provide detailed funding requirement budgets to the Company. These entities are not permitted to spend funds in excess of the levels set out in or for purposes other than those set out in the funding requirement budgets.

All surplus cash is currently held by the Company in order to maximise investment returns thereon. The type of cash instruments used and maturity dates thereof will depend on the Group's forecast cash requirements.

Market price risk

As all of the financial assets and financial liabilities of the Group are of a short-term nature and are not quoted in any way, the directors are of the opinion that the exposure of the Group to market price risk is not material and is at an acceptable level.

Credit risk

The Group is not currently engaged in the making of any credit sales and therefore is not exposed to any credit risk in respect of such sales. The credit risk represented by the possible irrecoverability of prepaid expenses directly related to and payments in respect of an exclusive option for the possible acquisition of the entire issued share capital of Minas Itatiaiuçu Ltda is the only significant credit risk faced by the Group. The maximum possible irrecoverable amount at 31 December 2006 in this regard is £829,879 (31 December 2005 : £23,191). The extent to which this risk will result in actual loss, if any, is a function of the negotiations underway in respect of such proposed acquisition.

Credit risk applicable to cash balances and other funds forming part of cash and cash equivalents is addressed by holding and investing such balances and funds with reputable banking institutions.

The currency profile of the Group financial assets and liabilities is as follows:

	As at 31 December 2006 £	As at 31 December 2005 £
Financial assets:		
Sterling	320,338	664,481
US Dollars	359,198	-
Brazilian Reals	6,884	-
	<u>686,420</u>	<u>664,481</u>
Financial liabilities:		
Sterling	1,189,823	184,771
US Dollars	1,986,011	-
Brazilian Reals	12,889	-
Australian Dollars	665	-
	<u>3,189,388</u>	<u>184,771</u>

The directors are of the opinion that there is no material difference between the carrying amount and fair value of Company and Group financial assets and liabilities.