DRAGON MINING NL

ABN 19 009 450 051

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORS' REPORT

Your Directors submit the report of Dragon Mining NL ("Dragon Mining" or "the Company") for the year ended 30 June 2006.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Andrew Edward Daley
BSc (Hons), Grad Dip (Geo Sc), C. Eng, F Aus IMM, MIOM3
Non-Executive Chairman

Mr Daley was appointed a Non-Executive Director on 2 March 2005 and Non-Executive Chairman on 20 March 2006. He is a Chartered Engineer, a Member of IOM3 and a Fellow of the Australian IMM. He is a Director of Investor Resources Finance Pty Limited ("IRF"), a company based in Melbourne which provides financial and corporate advisory services to the mining industry. Mr Daley is also a Director of Australian Resources Investment Group Pty Limited, a joint venture between IRF and Babcock and Brown, which was set up to seek investments in the resource sector. He is also currently a Non-Executive Director of ASX-listed Pan Australian Resources Limited, Kentor Gold Limited and AIM-listed Gladstone Pacific Nickel Limited.

Mr Daley commenced his career with Anglo American on the Zambian copper belt and later worked with Rio Tinto and Conoco Minerals elsewhere in Africa. He moved to Australia with Fluor Australia in 1981 and since 1983 has been focused on resource project finance with National Australia Bank, Chase Manhattan and more recently was a Director at Barclays Capital mining team in London.

Mr Daley is a member of the Audit and Risk Management Committee and the Remuneration and Nomination Committee.

Peter George Cordin
BE, MIEAust, CPEng, FAusIMM (CP)
Managing Director and Chief Executive Officer

Mr Cordin was appointed Chief Executive Officer on 22 November 2005 and Managing Director on 20 March 2006. He is a civil engineer with more than 30 years experience in the evaluation and operation of resource projects within Australia and overseas.

He was Project Manager responsible for the construction of an alluvial diamond facility and two carbon in leach gold treatment plants in Australia and Indonesia. He has direct experience in the management of diamond and gold operations. Mr Cordin was Managing Director of Grant's Patch Mining Limited (100,000 ounce gold per year production) and was Director – Operations of Forsayth NL responsible for all group operations in Australia involving the annual production of 320,000 ounces of gold from five mines. He has more recently been involved in the development of resource projects in Kazakhstan and New Caledonia. Mr Cordin is a Non-Executive Director of GVM Metals Limited.

Mr Cordin is a member of the Remuneration and Nomination Committee.

Toivo Tapani Järvinen
Lic. Tech
Non-Executive Director

Mr Järvinen was appointed a Non-Executive Director on 22 December 2003. Mr Järvinen has been employed by the Outokumpu Group since 1985. He was a member of the Outokumpu Group Executive Committee during years 2000-2005 and is currently President and CEO of Outokumpu Technology Oy. He is also Chairman of the Board of Outokumpu Mining Oy. Mr Järvinen is a Board member of the Finnish RFID-antenna producer Intune Circuits Oy (Joint Venture company of Outokumpu Technology, Finnish forest products company UPM and Finnish Industry Investment Ltd), International Copper Association Ltd and Eurometaux (European Association of Metals) and Chairman of the Board of the Finnish-Latin American Trade Association. Mr Järvinen was also a Board member of the Swedish mining and metals group Boliden AB (publ) during years 2003-2005.

DIRECTORS' REPORT (continued)

Peter Lawson Munachen
FCA
Non-Executive Director

Mr Munachen was appointed as a Non-Executive Director on 29 March 2005. Mr Munachen is a Fellow of the Institute of Chartered Accountants in Australia. He has had considerable experience in the resource industry and is a Director of Pancontinental Oil & Gas NL, Norwest Energy NL, Sub-Sahara Resources NL and Newland Resources Ltd. He is also a Director of Currie Rose Resources Inc., a TSX Venture Exchange mineral exploration company.

Mr Munachen is a member of the Audit and Risk Management Committee and the Remuneration and Nomination Committee.

Campbell Theodore Ansell
FCA MAICD

Mr Ansell resigned as Chairman and Non-Executive Director on 20 March 2006.

Donald James Searle
B.Sc., PhD, MAusIMM

Dr Searle resigned as Non-Executive Director on 20 March 2006.

Company Secretary

Dennis William Wilkins
BBus, ACIS, AICD

Mr Wilkins is an accountant who has been a Director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 20 years. Mr Wilkins previously served as the Finance Director and Company Secretary for a mid-tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles has broadened his international experience.

Mr Wilkins has extensive experience in capital raising, specifically for the resources industry and is the principal of DW Corporate which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is a Director of South Boulder Mines Limited, Marengo Mining Limited and Bonaparte Diamond Mines NL.

Interests in the Shares and Options of the Company

As at the date of this report, the interests of the Directors in the shares of the Company and related bodies corporate were:

	Ordinary Shares		Options		Convertible Notes	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
AE Daley	-	-	-	-	-	40,000
PG Cordin*	-	-	-	-	-	-
TT Järvinen	-	20,000,000	-	-	-	-
PL Munachen	-	-	-	-	-	-

* Mr Cordin has been granted 4,000,000 options with exercise prices between $0.14 and $0.21 which will be issued after shareholder approval.

Corporate Information

Dragon Mining NL is a no liability company that is incorporated and domiciled in Australia. Dragon Mining is the ultimate parent entity.

DIRECTORS' REPORT (continued)

Nature of Operations and Principal Activities
The principal activities of entities within the consolidated entity during the year were:
- Gold mining in Sweden; and
- Exploration, evaluation and development of gold projects in Europe.

There have been no significant changes in the nature of those activities during the year.

Results
The net loss of the consolidated entity for the financial year was $30,861,228 (2005: loss $23,372,342). The loss for the 2006 financial year included $23,451,224 of unrealised gold forward contract losses and an income tax expense of $6,632,248. The income tax expense relates to a write down of deferred tax assets and does not reflect a payable to any tax authorities.

The 2005 loss included $13,446,480 related to the write off of certain development expenses and cost overruns connected with the construction of the Svartliden gold project processing plant and $11,660,250 of unrealised gold forward contract losses.

Dividends
No dividend has been paid or declared since the commencement of the last financial year and no dividends have been recommended by the Directors.

Employees
The consolidated entity had 75 employees as at 30 June 2006 (2005: 65 employees).

Review of Operations

(a) Production
The Svartliden gold mine in Sweden produced 49,141 (2005: 6,296) ounces of gold in the 12 months ended 30 June 2006 at a cash cost of A$470/oz (or US$352/oz). Gold production at the Svartliden mine commenced in March 2005.

(b) Exploration and Development
Exploration programs commenced in the later part of the financial year and concentrated on advancing Dragon Mining's range of exploration properties located in Sweden and Finland. A variety of encouraging results were generated.

A review of the timetable for recommencing mining operations at Orivesi is being undertaken. The development of the decline at Sarvisuo is progressing with confirmatory drilling undertaken. The programme to re-commence mining at Orivesi and the re-commissioning of the Vammala process facility will be submitted for Board approval during the next few months.

(c) Corporate
The following significant activities occurred during the year ended 30 June 2006:
- Dragon Mining issued 23,645,289 convertible notes raising $24,827,553 to recommence production in Finland, undertake incremental plant improvements in Sweden and commence an active exploration program.
- The consolidated entity signed a conditional sale agreement for the Pampalo gold deposit and associated mining claims in the Ilomansti region in Eastern Finland for 6 million euros.

Significant Changes in the State of Affairs
There have been no significant changes in the state of affairs of the Company other than those listed above.

Significant Events after Year End
In accordance with the terms of the Amended Sale Agreement for the Pampalo Gold Project, Kalvinit Oy (Endomines AB) has advised the further extension of one month will be required to enable the completion of a private equity raising. An additional payment of 50,000 euros will be made on or before the 30 September 2006.

No other circumstances or events have arisen subsequent to the end of the financial year that have had, or are likely to have, a material impact on the financial statements.

DIRECTORS' REPORT (continued)

Likely Developments and Expected Results

The likely developments in the operations of the consolidated entity and the expected results of those operations in the coming year are as follows:

- Continued production of gold from the Svartliden gold mine;
- Recommencement of mining operations at Orivesi;
- Finalisation of the sale of Pampalo; and
- Continued gold exploration in Europe.

Environmental Regulation

The consolidated entity's operations are subject to significant environmental regulations under statutory legislation in relation to its exploration and mining activities.

The consolidated entity management monitors compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this report.

Share Options

Unissued Shares

As at the date of this report there are 24,350,000 (2005: 34,961,111) unissued ordinary shares in respect of which options are outstanding. These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

	2006
	Number of Options
Balance at the beginning of the year	34,961,111
Share options issued during the year	
Exercisable at $0.175	500,000
Total options issued for the year ended 30 June 2006	**500,000**
Share Options exercised during the year	(11,111,111)
Total number of options outstanding as at 30 June 2006	**24,350,000**

Refer to note 16 for details of Company options. Mr Cordin has been granted 4,000,000 options with exercise prices between $0.14 and $0.21 which will be issued after shareholder approval.

Partly paid shares

No shares were issued on exercise of partly paid shares during the year ended 30 June 2006 (2005: 500,000). There are 75,000 partly paid shares still outstanding at the date of the report as 3,250,000 partly paid shares were forfeited during the financial year.

Refer to note 16 for details of Company partly paid shares.

Convertible notes

23,645,289 convertible notes were issued during the year at $1.05 per note. The notes have a 10% coupon rate and are convertible into ordinary shares in November 2009 on the basis of 6 shares for 1 convertible note.

Indemnification and Insurance of Directors and Officers

The Company provides Directors and Officers liability insurance covering all the Directors of Dragon Mining against liability in their role as Directors of the Company, except where:

- the liability arises out of conduct involving a wilful breach of duty; or
- there has been a contravention of Sections 232(5) or (6) of the Corporations Act 2001

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of this insurance, as such disclosure is prohibited under the terms of the contract.

Remuneration Report

This report outlines the remuneration arrangements in place for Directors and executives of Dragon Mining.

DIRECTORS' REPORT (continued)

Dragon Mining Remuneration Policy

The Board recognises that the performance of the Company depends upon the quality of its Directors and executives. To achieve its financial and operating activities, the Company must attract, motivate and retain highly skilled Directors and executives.

The Company embodies the following principles in its remuneration framework:
- Provides competitive rewards to attract high calibre executives;
- Sets performance levels that are linked to an executive's remuneration, and ensures that there is a relationship between the Company's performance, individual performance and remuneration;
- Structures remuneration at a level that reflects the executive's duties and accountabilities and is competitive within Australia;
- Benchmarks remuneration against appropriate industry groups; and
- Aligns executive incentive rewards with the creation of value for Shareholders.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for determining and reviewing the compensation arrangements for the Directors themselves and the executive team.

Executive remuneration is reviewed annually having regard to individual and business performance against agreed targets, relevant comparative information and internal and independent external advice.

Remuneration Structure

In accordance with best practice governance, the structure of non-executive Director and senior executive remuneration is separate and distinct. Note that the remuneration structure for the Managing Director is the same as the executive team.

Non-Executive Director Remuneration

Objective
The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to Shareholders.

Structure
The Company's constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. Non-Executive Director's fees not exceeding an aggregate of $150,000 per annum have been approved by Shareholders in a General Meeting in 1997.

The amount of aggregate remuneration sought to be approved by Shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Each Non-Executive Director may also receive an equity based component where approval has been received from Shareholders in a General Meeting.

Managing Director and Senior Executive Remuneration

Objective
The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:
- Reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- Align the interest of executives with those of Shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

DIRECTORS' REPORT (continued)

Structure
In determining the level and make up of executive remuneration, the Remuneration and Nomination Committee benchmarked each executive position to determine market levels of remuneration for comparable executive roles in the mining industry.

It is the Remuneration and Nomination Committee's policy that employment contracts are in place for the Managing Director and executive employees. Details of these contracts are outlined later in this report.

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable remuneration
    - Short term incentives (STI); and
    - Long term incentives (LTI).

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive by the Remuneration and Nomination Committee.

Fixed Remuneration

Objective
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee. The process consists of a review of the business and individual performance, relevant comparable remuneration in the mining industry and external advice.

Structure
Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost to the Company.

Variable Remuneration – Short Term Incentive (STI)

Objective
The objective of the STI is to link the achievement of the Company's targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executives to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Structure
Actual STI payments granted to each executive depend on their performance over the preceding year and are determined during the annual performance appraisal process. The performance appraisal process involves analysing a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to net profit after tax, operational performance of business unit, risk management, and leadership/team contribution. The executive has to demonstrate outstanding performance in order to trigger payments under the short-term incentive scheme.

On an annual basis, after consideration of performance against KPIs, the overall performance of the Company and each individual business unit is assessed by the Remuneration and Nomination Committee. The individual performance of each executive is also assessed and all these measures are taken into account when determining the amount, if any, to be paid to the executive as a short-term incentive.

The aggregate of annual STI payments available for executives across the Company is subject to the approval of the Remuneration and Nomination Committee. Payments are usually delivered as a cash bonus.

DIRECTORS' REPORT (continued)

Variable Remuneration – Long Term Incentive (LTI)

Objective
The objective of the LTI plan is to reward executives in a manner which aligns this element of remuneration with the creation of Shareholder wealth.

As such LTIs are made to executives who are able to influence the generation of Shareholder wealth and thus have an impact on the Company's performance against the relevant long-term performance hurdles.

Structure
LTI grants to executives are delivered in the form of employee share options. These options are generally issued with an exercise price at a premium to the average of Dragon Mining's ordinary share price at the date issued.

Employment Contracts
The Managing Director, Mr Cordin, is employed under contract. His current employment contract commenced on 22 November 2005 and is for a term of three years. Under the terms of the contract:

- Mr Cordin may resign from his position and thus terminate this contract by giving three months written notice.
- The Company may terminate this employment contract by providing 12 months written notice or provide payment in lieu of the notice period (based on the fixed component of Mr Cordin's remuneration).

Mr Naylor (Chief Financial Officer) is also employed under contract. His current employment contract commenced on 22 May 2006 and is for a term of three years. Under the terms of the contract:

- Mr Naylor may resign from his respective position and thus terminate his contract by giving three months written notice.
- The Company may terminate this employment contract by providing 12 months written notice or provide payment in lieu of the notice period (based on the fixed component of Mr Naylor's remuneration).

LTI Options

All executives LTI options operate under the following conditions:

- On resignation by the executive, any LTI options held that have vested will need to be exercised within 30 days of termination or they will be forfeited. Any LTI options that have not vested will be forfeited.
- On termination on notice by the Company, any LTI options that have vested, or will vest during the notice period will need to be exercised within 30 days of termination or they will be forfeited. LTI options that have not vested will be forfeited.

DIRECTORS' REPORT (continued)

Directors' and Executives' Remuneration

Details of remuneration provided to Directors and the five most highly remunerated officers are as follows:

	PRIMARY BENEFITS		POST EMPLOYMENT	LONG TERM	TERMINATION BENEFITS
	Base Remuneration	Non-Monetary Benefits	Super-annuation	Other	Other
	$	$ (a)	$	$	$
Directors					
AE Daley	41,250	-	-	-	-
PG Cordin*	169,617	-	14,437	-	-
PL Munachen	31,750	-	-	-	-
TT Järvinen	31,750	-	-	-	-
CT Ansell**	37,500	-	3,375	-	-
DJ Searle**	127,787	-	9,611	-	50,000
Executives					
S Solomons***	162,454	-	14,428	-	-
N Edwards	100,000	-	9,000	17,928	-
I Haga****	188,285	390	43,305	-	-
R Uusitalo	143,142	12,296	-	-	-
U Kuronen	119,740	390	-	-	-

* Appointed as a Director on 20 March 2006, however total remuneration has been calculated from when Mr Cordin was appointed as the Chief Executive Officer in November 2005.
** Resigned 20 March 2006.
*** Resigned 10 February 2006.
**** Resigned 28 February 2006.

(a) Non-monetary benefits include, where applicable, the cost to the Company of providing fringe benefits, the fringe benefits tax on those benefits and all other benefits received by the executive.
(b) Details of the terms and conditions of the options are set out in note 28. Fair values have been determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, Dragon Mining's ordinary share price at the date of issue, the expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

None of the remuneration above is performance based and no options were granted to any of the Directors or five most highly remunerated executives during the year ended 30 June 2006.

Directors' Meetings

The number of Directors' and Board Committee meetings held and the number of meetings attended by each of the Directors of the Company during the financial year were:

	Board		Audit		Remuneration	
	Held	Attended	Held	Attended	Held	Attended
AE Daley	13	13	2	2	1	1
PG Cordin*	4	4	-	-	-	-
TT Järvinen	13	11	-	-	-	-
PL Munachen	13	13	2	2	-	-
CT Ansell**	10	10	2	2	1	1
DJ Searle**	10	10	-	-	-	-

* PG Cordin was appointed Managing Director on 20 March 2006.
** CT Ansell and DJ Searle resigned as Directors on 20 March 2006.

The details of the functions of the other committees of the Board are presented in the Corporate Governance Statement.

DIRECTORS' REPORT (continued)

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and the consolidated entity are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity.

	Parent 2006 $
Assurance services	
Audit services	
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	79,181
Total remuneration for audit services	**79,181**

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors with a written Independence Declaration in relation to their audit of the financial report for the year ended 30 June 2006. This written Auditor's Independence Declaration is attached to the Auditor's Independent Audit Report to the members and forms part of this Directors' Report.

Signed in Perth this 22nd day of September, 2006 in accordance with a resolution of the Directors.

PL Munachen
Director

DIRECTORS' REPORT (continued)

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Dragon Mining NL, I state that:

1. In the opinion of the Directors:

(a) The financial statements and notes and the additional disclosures included in the Directors' report designated as audited of the Company and of the consolidated entity, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance, for the year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration is made after receiving the declarations required to be made to Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

This declaration is made in accordance with a resolution of the Board of Directors.

PL Munachen
Director

Dated at Perth this 22nd day of September 2006

CORORATE GOVERNANCE STATEMENT

The Board of Directors of Dragon Mining NL ("the Company") is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the Company on behalf of the Shareholders by whom they are elected and to whom they are accountable.

During the reporting period, the Company has complied with each of the "Principles of Good Corporate Governance and Best Practice Recommendations" established by the ASX Corporate Governance Council, other than in relation to the matters specified below.

Recommendation Reference	Notification of Departure	Explanation for Departure
2.4: The Board should establish a Nomination Committee.	A separate Nomination Committee has not been formed.	The Board comprises 4 members and it was decided that no efficiencies would be achieved by establishing a separate Nomination Committee. The whole Board has carried out the duties which would otherwise be undertaken by a Nomination Committee. Subsequent to 30 June 2006, a Nomination Committee has been established by the Company. It has been combined with the Remuneration Committee to establish the Remuneration and Nomination Committee.
4.3: The structure of the Audit Committee should consist of at least 3 members.	There are only 2 members of the Audit Committee.	Due to the structure and size of the Board and the location of the 3rd independent Director, the Audit Committee only has 2 members.
5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements to ensure accountability at a senior management level.	At 30 June 2006, the Company had no written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability for that compliance.	Subsequent to year end, the Board has approved written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability for that compliance. Refer to the Company's website to review these policies and procedures.
7.1: The Board or appropriate Board Committee should establish policies on risk oversight and management.	On 10 September 2004, the Company adopted a risk policy as incorporated in the Company's Audit Committee Charter.	Subsequent to 30 June 2006, the Audit Committee has expanded its role and is now the Audit and Risk Management Committee. The members consist of Andrew Daley and Peter Munachen. A new Audit and Risk Management Committee Charter has also been prepared.
8.1: Disclose the process for performance evaluation of the Board, its committees and individual Directors, and key executives.	There was not a formal process for the evaluation of the Board, individual Directors and key executives during the reporting period.	Subsequent to 30 June 2006, a formal process for the evaluation of the Board, individual Directors and key executives was documented and established. Refer to the Company's website for the performance evaluation process.
9.1: The Remuneration Committee should consist of at least 3 members.	The Remuneration Committee only consisted of 2 members.	Due to the size of the Board, the Board believes that 2 independent Directors are sufficient for the Remuneration Committee. Peter Cordin has been elected to the Remuneration and Nomination Committee.

At the Board meeting on 21 September 2006, the Board approved updated policies, charters and codes of conduct which have been adopted to ensure compliance with the "best practice recommendations" referred to above.

A description of the Company's main corporate governance practices adopted at this Board meeting is set out below.

CORORATE GOVERNANCE STATEMENT (continued)

1. The Board of Directors

In accordance with ASX Principle 1, the Board has established a "Statement of Board and Management Functions" which is available on the Company website. This outlines the functions reserved to the Board and those delegated to management and demonstrates that the responsibilities and functions of the Board are distinct from management.

The key responsibilities of the Board include:

- Appointing, evaluating, rewarding and if necessary the removal of the Managing Director ("MD") and senior management;
- Development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- Monitoring actual performance against defined performance expectations and reviewing operating information to understand at all times the state of the health of the Company;
- Overseeing the management of business risks, safety and occupational health, environmental issues and community development;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately. Further, approving and monitoring financial and other reporting;
- Assuring itself that appropriate audit arrangements are in place;
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted a Code of Conduct and that the Company practice is consistent with that Code; and
- Reporting to and advising Shareholders.

The Board is comprised of three Non-Executive Directors including the Chairman and one executive Director being the MD.

The table below sets out the detail of the tenure of each Director at the date of this report.

Director	Role of Director	First Appointed	Non-Executive	Independent
Andrew Edward Daley	Non-executive Chairman	March 2005	Yes	Yes
Peter George Cordin	Managing Director	March 2006	No	No
Peter Lawson Munachen	Non-executive Director	March 2005	Yes	Yes
Toivo Tapani Järvinen	Non-executive Director	December 2003	Yes	Yes

Details of the members of the Board including their experience, expertise and qualifications are set out in the Directors' Report under the heading "Directors".

2. Director Independence

As outlined in ASX Principle 2, Directors are expected to contribute independent views to the Board.

The Board has adopted specific principles in relation to the Directors' independence. These state that to be deemed independent, a Director must be a non-executive and:

- Not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;

CORORATE GOVERNANCE STATEMENT (continued)

- Within the last three years has not been a principal of a material professional advisor or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- Not a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Must have no material contractual relationship with the Company or another group member other than as a Director of the Company;
- Not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Materiality for these purposes is based on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual Directors net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed to be material if knowledge of it impacts the shareholders' understanding of the Director's performance.

The Board has reviewed and considered the positions and associations of each of the four Directors in office at the date of this report and considers that three of the Directors are independent. Mr Peter Cordin is not considered to be independent. As such it is clear that the majority of the Board are independent and the Chairman is an independent Director.

The roles of the Chairman and the MD are not exercised by the same individual. The Chairman is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring Directors are properly briefed for meetings. The Board has delegated responsibility for the day-to-day activities to the MD and senior management. The Remuneration and Nomination Committee ensure that the Board members are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the MD and senior management. The MD is accountable to the Board for all authority delegated to that position and senior management.

Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense.

3. Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of two Non-Executive Directors, Mr AE Daley and Mr PL Munachen (Chairman) and one executive Director, Mr Peter Cordin.

The Remuneration and Nomination Committee is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the MD, senior management and employees. In addition, they are responsible for reviewing the appropriateness of the size of the Board relative to its various responsibilities. Recommendations are made to the Board on these matters. Further roles and responsibilities of this Committee can be found in the Committee's charter which is posted on the Company website.

4. Code of Conduct

The Board acknowledges the need for the highest standards of corporate governance and ethical conduct by all Directors and employees of the consolidated entity. As such, the Company has developed a Code of Conduct which has been fully endorsed by the Board and applies to all Directors and employees. This Code of Conduct is regularly reviewed and updated as necessary to ensure that it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

A fundamental theme is that all business affairs are conducted legally, ethically and with strict observance of the highest standards of integrity and propriety. The Directors and management have the responsibility to carry out their functions with a view to maximising financial performance of the consolidated entity. This concerns the propriety of decision making in conflict of interest situations and quality decision making for the benefit of shareholders.

CORORATE GOVERNANCE STATEMENT (continued)

Refer to the Company website for specific code of conduct.

5. Securities Trading

The Board has adopted the "Security Dealings Policy" (refer website) (which is driven by the Corporations Act 2001 requirements) that applies to all Directors, officers and employees of the Company. Under this policy and the Corporations Act 2001, it is illegal for Directors, officers or employees who have price sensitive information relating to the Group which has not been published or which is not otherwise 'generally available' to:

- Buy, sell or otherwise deal in Company shares, convertible notes or options ("Company securities");
- Advise, procure or encourage another person (for example, a family member, a friend, a family Company or trust) to buy or sell Company securities; or
- Pass on information to any other person, if one knows or ought reasonably know that the person may use the information to buy or sell (or procure another person to buy or sell) Company securities.

6. Corporate Reporting

In accordance with ASX Principle 4, the MD and Chief Financial Officer ("CFO") have made the following certifications to the Board:

- That the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group; and
- That the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Company's risk management and internal control is operating efficiently in all material respects.

7. Audit and Risk Management Committee

The Audit and Risk Management Committee consists of two non-executive Directors, Mr AE Daley and Mr PL Munachen (Chairman).

The Committee operates under a charter approved by the Board which is posted to the corporate governance section of the website. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records and identifying and controlling risks to ensure that they do not have a negative impact on the Company. The Committee also provides the Board with additional assurance regarding the reliability of the financial information for inclusion in the financial reports.

The Audit and Risk Management Committee is also responsible for:

- Ensuring compliance with statutory responsibilities relating to accounting policy and disclosure;
- Liaising with, discussing and resolving relevant issues with the auditors;
- Assessing the adequacy of accounting, financial and operating controls;
- Reviewing half-year and annual financial statements before submission to the Board; and
- Overseeing risk management strategies in relation to gold hedging, currency hedging, debt management, capital management, cash management and insurance.

In accordance with the ASX Principle 7, the Board has an established Risk Management policy which is available on the Company website which is designed to safeguard the assets and interests of the Company and to ensure the integrity of reporting.

The MD and CFO will inform the Board annually in writing that:

- The sign off given on the financial statements is founded on a sound system of risk management and internal control compliance which implements the policies adopted by the Board.
- The Company's risk management and internal compliance and control systems is operating effectively and efficiently in all material respects.

CORORATE GOVERNANCE STATEMENT (continued)

8. External Auditors

The Company's current external auditors are Stanton Partners. As noted in the Audit and Risk Management Committee charter, the performance and independence of the auditors is reviewed by the Audit and Risk Management Committee.

Stanton Partner's existing policy requires that its audit team provide a statement as to their independence. This statement was received by the Audit and Risk Management Committee for the financial year ended 30 June 2006.

9. Continuous Disclosure

In accordance with ASX Principle 5, the Board has an established disclosure policy which is available on the Company website.

The Company is committed to:

- Ensuring that stakeholders have the opportunity to access externally available information issued by the Company;
- Providing full and timely information to the market about the Company's activities; and
- Complying with the obligations contained in ASX Listing Rules and the Corporations Act relating to continuous disclosure.

The MD and the Company Secretary have been nominated as the people responsible for communication with ASX. This involves complying with the continuous disclosure requirements outlined in ASX Listing Rules, ensuring that disclosure with the ASX is co-ordinated and being responsible for administering and implementing the policy.

10. Shareholder Communication

In accordance with ASX Principle 6, the Board has established a communications strategy which is available on the Company website.

The Board aims to ensure that the Shareholders, on behalf of whom they act, are informed of all information necessary and kept informed of all major developments affecting the Company in a timely and effective manner. Information is communicated to the market and shareholders through:

- The annual report which is distributed to all shareholders.
- Half yearly, quarterly reports and all ASX announcements which are posted on the entity's website.
- The annual general meeting and other meetings so called to obtain approval for Board action as appropriate.
- Continuous disclosure announcements made to the Australian Stock Exchange.

Further, it is a CLERP 9 requirement that the auditor of the Company attends the annual general meeting. This provides shareholders the opportunity to question the auditor concerning the conduct of the audit and the preparation and content of the Auditor's Report.

11. Remuneration Policies

This policy governs the operations of the Remuneration and Nomination Committee. The Committee reviews and reassesses the policy at least annually and obtains the approval of the Board.

The details of the Directors' and executives' remuneration policies are provided in the Directors' Report under the heading "Remuneration Report".

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated Entity		Parent Entity	
	Note	**2006 $**	**2005 $**	**2006 $**	**2005 $**
Continuing Operations					
Revenue from gold sales	2(a)	29,679,285	3,469,573	-	-
Cost of sales	2(c)	(30,143,408)	(4,466,722)	-	-
Gross loss		(464,123)	(997,149)	-	-
Other income	2(b)	674,881	2,151,305	2,226,989	1,582,109
Exploration expenditure written off		(198,717)	(1,121,185)	-	-
Development expenditure written off		-	(13,466,480)	-	(3,000,000)
Other expenses	2(e)	(5,247,953)	(4,077,380)	(30,975,096)	(1,909,062)
Loss from continuing operations before treasury, tax and finance costs		(5,235,912)	(17,510,889)	(28,748,107)	(3,326,953)
Finance costs	2(d)	(2,842,212)	(636,968)	(1,306,082)	(340,315)
Loss before treasury and tax		(8,078,124)	(18,147,857)	(30,054,189)	(3,667,268)
Treasury – gains/(losses)	2(f)	(16,151,910)	(11,858,074)	2,032,944	(2,039,509)
Loss before tax		(24,230,034)	(30,005,931)	(28,021,245)	(5,706,777)
Income tax benefit/(expense)	3	(6,632,248)	6,632,248	-	-
Loss from continuing operations after income tax		(30,862,282)	(23,373,683)	(28,021,245)	(5,706,777)
Net loss attributable to outside equity interests		1,054	1,341	-	-
Net loss attributable to members of Dragon Mining NL		(30,861,228)	(23,372,342)	(28,021,245)	(5,706,777)
Basic loss per share	22	(0.072)	(0.066)		
Diluted loss per share	22	(0.072)	(0.066)		

The above Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET AS AT 30 JUNE 2006

		Consolidated Entity		Parent Entity	
	Note	2006 $	2005 $	2006 $	2005 $
CURRENT ASSETS					
Cash and cash equivalents	4	12,626,675	2,497,324	11,345,922	1,393,890
Trade and other receivables	5	3,809,930	1,368,977	-	702
Inventories	6	2,777,543	1,648,857	-	-
Investments and other financial assets	7	1,917,400	2,763,700	-	122,143
Derivative financial instruments	29	-	2,145,983	-	-
Other current assets	11	298,851	270,259	33,017	24,420
TOTAL CURRENT ASSETS		21,430,399	10,695,100	11,378,939	1,541,155
NON-CURRENT ASSETS					
Trade and other receivables	5	-	-	32,764,874	43,739,176
Property, plant and equipment	9	18,087,733	20,882,708	8,311	47,020
Mineral exploration and development costs	10	34,338,454	30,413,845	1,234,127	1,542,659
Investments and other financial assets	7	-	-	7,420,026	7,420,026
Deferred tax assets	3	-	8,244,186	-	-
Other non-current assets	11	2,434,373	400,342	-	18,076
TOTAL NON-CURRENT ASSETS		54,860,560	59,941,081	41,427,338	52,766,957
TOTAL ASSETS		76,290,959	70,636,181	52,806,277	54,308,112
CURRENT LIABILITIES					
Trade and other payables	12	6,992,821	3,983,605	809,460	120,311
Interest bearing loans and borrowings	13	250,856	7,478,830	-	1,000,000
Provisions	14	413,752	572,162	31,150	31,373
Derivative financial instruments	29	35,111,473	11,660,250	-	-
Other liabilities	15	88,128	52,154	-	-
TOTAL CURRENT LIABILITIES		42,857,030	23,747,001	840,610	1,151,684
NON-CURRENT LIABILITIES					
Trade and other payables	12	-	-	3,677,629	3,677,629
Interest-bearing loans and borrowings	13	28,137,871	12,033,628	24,827,553	3,886,185
Provisions	14	4,033,774	4,890,508	21,172	39,441
Deferred tax liabilities	3	-	1,611,938	-	-
Other liabilities	15	504,745	407,381	-	-
TOTAL NON-CURRENT LIABILITIES		32,676,390	18,943,455	28,526,354	7,603,255
TOTAL LIABILITIES		75,533,420	42,690,456	29,366,964	8,754,939
NET ASSETS		757,539	27,945,725	23,439,313	45,553,173
EQUITY					
Contributed equity	16	71,677,010	65,793,365	71,677,010	65,793,365
Reserves	17	(1,737,107)	472,523	23,740	-
Accumulated losses		(69,182,701)	(38,321,473)	(48,261,437)	(20,240,192)
Total parent entity interest		757,202	27,944,415	23,439,313	45,553,173
Minority interest	18	337	1,310	-	-
TOTAL EQUITY		757,539	27,945,725	23,439,313	45,553,173

The above Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Attributable to Equity Holders of the Parent					
CONSOLIDATED	***Contributed Equity***	***Accumulated Losses***	***Reserves***	***Total***	***Minority Interests***	***Total Equity***
	$	**$**	**$**	**$**	**$**	**$**
At 1 July 2004	45,331,414	(14,949,131)	-	30,382,283	2,651	30,384,934
Loss for the period	-	(23,372,342)	-	(23,372,342)	(1,341)	(23,373,683)
Issue of share capital	21,528,118	-	-	21,528,118	-	21,528,118
Share capital issue costs recognised directly in equity	(1,066,167)	-	-	(1,066,167)	-	(1,066,167)
Currency translation differences	-	-	472,523	472,523	-	472,523
At 30 June 2005	65,793,365	(38,321,473)	472,523	27,944,415	1,310	27,945,725
Loss for the period	-	(30,861,228)	-	(30,861,228)	(1,054)	(30,862,282)
Share based payment	-	-	23,740	23,740	-	23,740
Issue of share capital	6,199,999	-	-	6,199,999	-	6,199,999
Share capital issue costs recognised directly in equity	(312,950)	-	-	(312,950)	-	(312,950)
Forfeit of partly paid shares	(3,404)	-	-	(3,404)	-	(3,404)
Currency translation differences	-	-	(2,233,370)	(2,233,370)	81	(2,233,289)
At 30 June 2006	71,677,010	(69,182,701)	(1,737,107)	757,202	337	757,539
PARENT						
At 1 July 2004	45,331,414	(14,533,415)	-	30,797,999	-	30,797,999
Loss for the period	-	(5,706,777)	-	(5,706,777)	-	(5,706,777)
Issue of share capital	21,528,118	-	-	21,528,118	-	21,528,118
Share capital issue costs recognised directly in equity	(1,066,167)	-	-	(1,066,167)	-	(1,066,167)
At 30 June 2005	65,793,365	(20,240,192)	-	45,553,173	-	45,553,173
Loss for the period	-	(28,021,245)	-	(28,021,245)	-	(28,021,245)
Share based payment	-	-	23,740	23,740	-	23,740
Issue of share capital	6,199,999	-	-	6,199,999	-	6,199,999
Share capital issue costs recognised directly in equity	(312,950)	-	-	(312,950)	-	(312,950)
Forfeit of partly paid shares	(3,404)	-		(3,404)	-	(3,404)
At 30 June 2006	71,677,010	(48,261,437)	23,740	23,439,313	-	23,439,313

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated Entity 2006 $	Consolidated Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Cash flows from operating activities					
Receipts from customers		28,697,543	3,748,887	-	-
Payments to suppliers and employees		(26,757,947)	(6,265,380)	(3,135,078)	(1,397,915)
Interest received		360,527	328,335	329,131	297,461
Interest expenses		(1,327,130)	(533,116)	(687,096)	(340,315)
Payment of government security		(2,264,099)	-	-	-
Proceeds on close out of foreign exchange forward contracts		3,536,827	-	-	-
Reimbursement of costs		-	-	-	9,555
Net Operating Cash Flows	4(a)	2,245,721	(2,721,274)	(3,493,043)	(1,431,214)
Cash flows from investing activities					
Payments for property, plant and equipment		(3,357,322)	(1,774,414)	(4,121)	(4,377)
Proceeds from sale of property, plant and equipment		851,708	328,750	2,023	-
Deposit on sale of asset		967,586	-	-	-
Proceeds from sale of shares		295,710	-	295,710	-
Payment for exploration, evaluation and development expenditure capitalised		(5,909,907)	(26,894,067)	-	-
Net Investing Cash Flows		(7,152,225)	(28,339,731)	293,612	(4,377)
Cash flows from financing activities					
Proceeds from loan		-	4,884,263	-	-
Proceeds from issue of shares		5,887,049	20,461,951	5,887,049	20,461,951
Proceeds from issue of convertible notes		24,827,553	-	24,827,553	-
Advances to controlled entities		-	-	(12,676,954)	(24,030,511)
Repayment of bank loans		(15,780,974)	(2,195,308)	(4,886,185)	-
Net Financing Cash Flows		14,933,628	23,150,906	13,151,463	(3,568,560)
Net increase/(decrease) in cash and cash equivalents		10,027,124	(7,910,099)	9,952,032	(5,004,151)
Cash and cash equivalents at the beginning of the financial year		2,497,324	10,518,201	1,393,890	6,398,041
Effects of exchange rate changes on cash and cash equivalents		102,227	(110,778)	-	-
Cash and cash equivalents at the end of the financial year	4	12,626,675	2,497,324	11,345,922	1,393,890

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate Information

The financial report of Dragon Mining NL for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 21 September 2006.

Dragon Mining NL is a no liability company incorporated and domiciled in Australia whose shares are publicly listed on the Australian stock exchange. The address of the registered office is Level 1, 173 Mounts Bay Road, Perth, Western Australia 6000.

(b) Basis of Accounting

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and held-for-trading investments, which have been measured at fair value.

The financial report is presented in Australian dollars.

The consolidated accounts have been prepared on the going concern basis of accounting, which assumes that the consolidated entity will be able to meet its commitments, realise its assets and discharge its liabilities in the ordinary course of business.

The ability of the consolidated entity to continue as a going concern is dependent upon the Svartliden Gold Project being profitable and producing cash flow to meet all its obligations. The consolidated entity is also dependent upon the availability of adequate funding for existing commitments and ongoing business activities.

(c) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2006 have been restated accordingly. Reconciliations of AIFRS equity and loss for 30 June 2005 to the balances reported in the 30 June 2006 financial report are detailed in note 32.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006.

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard*	Application Date for Group
2004 – 3	AASB 1 *First-time Adoption of AIFRS*, AASB 101 *Presentation of Financial Statements*, AASB 124 *Related Party Disclosures*	No change to accounting policy required. Therefore no impact.	1 Jan 06	1 Jul 06
2005 – 1	AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 Jan 06	1 Jul 06
2005 – 4	AASB 1*First Time Adoption of AIFRS* AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 Jan 06	1 Jul 06
2005 – 5	AASB 1*First Time Adoption of AIFRS* AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 Jan 06	1 Jul 06
2005 – 6	AASB 3 *Business Combinations*	No change to accounting policy required. Therefore no impact.	1 Jan 06	1 Jul 06
2005 – 10	AASB 132 *Financial Instruments: Disclosure and Presentation* AASB 101 *Presentation of Financial Statements* AASB114 *Segment Reporting* AASB 117 *Leases* AASB 133 *Earnings Per Share* AASB 139 *Financial Instruments: Recognition and Measurement* AASB 1*First Time Adoption of AIFRS* AASB 4 *Insurance Contracts* AASB 1023 *General Insurance Contracts* AASB 1038 *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact.	1 Jan 07	1 Jul 07
New standard	AASB 7 *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact.	1 Jan 07	1 Jul 07

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Statement of Compliance (continued)

The following amendments are not applicable to the consolidation entity and therefore have no impact:

AASB Amendment	Affected Standard(s)
New Standard	AASB 119 *Employee Benefits* (Revised Dec 04) – Accounting policy options contained within the revised standard affect accounting for defined benefit schemes only. As Dragon Mining does not have or do not contribute to a defined benefit scheme, there is no impact of this change.
2005 – 2	AASB 1023 *General Insurance Contracts*
2005 – 4	AASB 132 *Financial Instruments – Disclosure and Presentation*, AASB 1023 *General Insurance Contracts* and AASB 1028 *Life Insurance Contracts*
2005 – 9	AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, AASB 139 *Financial Instruments – Recognition and Measurement* and AASB 132 *Financial Instruments – Disclosure and Presentation*
2005 – 12	AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts*
2005 – 13	AAS 25 *Financial Reporting by Superannuation Plans*

(d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Dragon Mining NL and its subsidiaries (the "consolidated entity" or "Group") as at 30 June each year.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date which control is transferred out of the consolidated entity.

Minority interests represent a portion of profit or loss and net assets in Kivijarvi, a subsidiary of Polar Mining Oy, not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

(e) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Bullion sales

Revenue is recognised when the risk has passed from the Group to an external party and the selling price can be determined with reasonable accuracy. Sales revenue represents gross proceeds receivable from the customer. Certain sales are initially recognised at estimated sales value when the gold is dispatched. Adjustments are made for variations in commodity price, assay and weight between the time of dispatch and time of final settlement.

Revenue from the sale of by-products such as silver is included in sales revenue.

Interest

Revenue is recognised as the interest accrues using the effective interest rate method (which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(f) Income Taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income Taxes (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except for the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Tax consolidation legislation

Dragon Mining NL and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable for the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(h) Foreign Currency Transactions and Balances

(i) Functional & Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

(ii) Transaction & Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Foreign Currency Transactions and Balances (continued)
Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

(iii) Group Companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(i) Receivables
Trade receivables, which generally have 30 to 90 day terms, are carried at nominal amounts due less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Receivables from related parties are recognised and carried at the nominal amount due. Where interest is charged it is taken up as income in profit and loss and included in other income.

(j) Inventories
Finished goods, gold in circuit and stockpiles of unprocessed ore have been valued at the lower of cost and estimated net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to ore stockpiles and gold in circuit items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Consumables have been valued at cost less an appropriate provision for obsolescence. Cost is determined on a first-in-first-out basis.

(k) Property, Plant and Equipment
Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The depreciation rates used for each class of depreciable assets are:

Mining plant and equipment	10-20%
Other plant and equipment	5-50%
Buildings	4-20%

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount through the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, Plant and Equipment (continued)
The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit). A reversal of impairment loss is recognised in profit and loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation increase.

(l) Joint Venture Operations
The consolidated entity's share of the assets, liabilities and expenses of joint venture operations are included in the appropriate items of the consolidated balance sheet and income statement.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in the joint venture entities are brought to account using the cost method.

(m) Exploration & Development Expenditure
(i) Areas in Exploration and Evaluation
Exploration and evaluation costs related to an area of interest are carried forward only when rights of tenure to the area of interest are current and provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area of interest have not yet reached a state which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area are continuing.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

(ii) Areas in Development
Areas in development represent the costs incurred in preparing mines for production. The costs are carried forward to the extent that these costs are expected to be recouped through the successful exploitation of the Company's mining leases.

Periodically, pre-strip and waste removal costs are incurred to enable mining of a new resource or a substantial re-design of a current pit. These pre-strip costs are deferred and amortised over the remaining life of the particular pit in accordance with the life of the pit strip ratio.

AASB 6 Exploration for and Evaluation of Mineral Resources has been applied effective 1 July 2004.

(n) Cash & Cash Equivalents
Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(o) Investments and Other Financial Assets
The Group classifies its investments in the following categories: financial assets at fair value through the profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Investments and Other Financial Assets (continued)

(i) Financial assets at fair value through profit and loss
This category has two sub categories: financial assets held-for-trading, and those designated at fair value through profit and loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term subject to frequent changes in fair value. Derivatives are also classified as held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current asses, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets
Available-for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Recoverable Amount of Assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired.

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which it belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

(q) Payables
Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchases of these goods and services.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accruals basis.

(r) Provisions
Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(s) Employee Benefits
Provision is made for employee benefits accumulated as a result of employee services up to the reporting date. These employee benefits include wages and salaries, annual leave, and long service leave, and include related on-costs such as superannuation, payroll tax and workers compensation insurance.

Provision for annual leave and the current portion of long service leave together with the associated employment on-costs are measured at their nominal amounts based on remuneration rates expected to be paid when the liability is settled. The non-current portions of long service leave and its associated employment on-costs are measured at the present value of estimated future cash flows. No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will never be paid.

Contributions to defined contribution superannuation plans are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Share Based Payments
Employees have been issued with options over the ordinary shares of Dragon Mining NL.

The cost of these option ownership schemes with employees is measured by reference to the fair value at the date at which the options are granted. The fair value of options granted is recorded as an expense on a straight line basis over the vesting period on the option. The cost of options granted is recognised, together with a corresponding increase in an "option reserve", over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees became fully entitled to the options ("vesting date").

The fair value is determined by using the Black & Scholes option pricing model.

(u) Restoration and Rehabilitation Costs
The consolidated entity records the present value of the estimated cost of legal and constructive obligations (such as those under the consolidated entity's Environmental Policy) to restore operating locations in the period in which the obligation is incurred. The nature of restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas.

Typically the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in the present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. Additional disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

The unwinding of the effect of discounting on the provision is recorded as a finance cost in the income statement. The carrying amount capitalised is depreciated over the life of the related asset.

(v) Borrowing Costs
Borrowing costs may be either expensed in the period they are incurred, or where the borrowing costs incurred are directly associated with the construction, purchase or acquisition of a qualifying asset, the borrowing costs may be capitalised as part of the cost of the asset.

(w) Interest-Bearing Loans and Borrowings
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(x) Derivative Financial Instruments
Derivative financial instruments are used by the consolidated entity to manage exposures to gold prices and exchange rates. The consolidated entity does not apply hedge accounting.

Derivative financial instruments are stated at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

(y) Convertible Notes
For convertible notes, the component of the convertible note that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs.

On issuance of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion. The increase in the liability due to the passage of time is recognised as a finance cost.

Interest on the liability component of the convertible note is recognised as an expense in profit and loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Leases

Finance leases, which transfer to the consolidated entity substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiation of an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(aa) Earnings per Share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus element.

(ab) Segment Reporting

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

(ac) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(ad) Significant Accounting Judgments, Estimates and Assumptions

(i) Mine Rehabilitation provision

The consolidated entity assesses its mine rehabilitation provision half-yearly in accordance with the accounting policy stated in note 1(u). Significant judgment is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such differences will impact the mine rehabilitation provision in the period in which they change or become known.

(ii) Fair valuations of derivative financial instruments

The Company assesses the fair value of its forward gold sale agreements and foreign exchange contracts in accordance with the accounting policy note stated in note 1(o) and note 1(x). Fair values have been determined based on well established valuation models and market conditions existing at the balance date. These calculations require the use of estimates and assumptions. Changes in the assumptions concerning interest rates, gold prices and volatilities could have significant impact on the fair valuation attributed to the companies forward gold sale agreements and foreign exchange contracts.

When these assumptions change or become known in the future, such differences will impact asset/liability carrying values and profit and loss in the period in which they change or become unknown.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) Significant Accounting Judgments, Estimates and Assumptions (continued)

(iii) Impairment of assets

The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value in use and fair value less costs to sell. These calculations require the use of the estimates, which have been outlined in note 31.

Given the nature of the consolidated entity's mining activities, future changes in long term assumptions upon which these estimates are based, may give rise to material adjustments to the carrying value of the CGU. This could lead to a reversal of part, or all, of impairment losses recorded in the year to 30 June 2006, or the recognition of additional impairment losses in the future (refer to note 31 for details of impairment losses). The inter-relationships of the significant assumptions upon which estimates future cash flows are based, however, are such that it is impractical to disclose the extent of the possible effects of a change in a key assumption in isolation.

Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of each CGU, relatively modest changes in one or more assumptions could require a material adjustment to the carrying value of the related non-current assets within the next reporting period.

(iv) Income taxes

The consolidated entity is subject to income taxes in Australia, Sweden and Finland. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate determination is not finalised until statutory tax returns are lodged with the appropriate authorities. Where the final tax outcome of these matters is different from the amounts were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made which is usually the subsequent financial year.

(v) Exploration expenditure

Expenditure and development expenditure that does not form part of the cash generating units assessed for impairment has been carried forward on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. In the event that significant operations cease and/or economically recoverable reserves are not assessed as being present, this expenditure will be expensed to the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

2 REVENUE AND EXPENSES

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
(a) Revenue				
Gold sales	29,679,285	3,469,573	-	-
(b) Other income				
Net gain on disposal of exploration assets	-	1,005,415	-	-
Finance revenue	433,073	978,831	2,047,995	1,572,554
Gain on sale of plant and equipment	7,693	-	2,023	-
Other	234,115	167,059	176,971	9,555
Total other income	674,881	2,151,305	2,226,989	1,582,109
Total Revenue	30,354,166	5,620,878	2,226,989	1,582,109
Breakdown of finance revenue				
Bank interest	433,073	328,335	401,676	297,461
Subsidiaries	-	-	1,646,319	1,152,950
Total finance revenue (on historical cost basis)	433,073	328,335	2,047,995	1,450,411
Fair value change on held-for-trading investments	-	650,496	-	122,143
	433,073	978,831	2,047,995	1,572,554
(c) Cost of sales				
Cost of production	22,871,600	3,157,169	-	-
Depreciation of mine properties	4,744,000	949,836	-	-
Amortisation of exploration and development costs	2,527,808	359,717	-	-
Total cost of sales	30,143,408	4,466,722	-	-
(d) Finance costs				
Interest – other persons	1,946,116	533,116	1,306,082	340,315
Total finance costs (on historical cost basis)	1,946,116	533,116	1,306,082	340,315
Rehabilitation discount adjustment	-	103,852	-	-
Fair value change of held-for-trading-investments	896,096	-	-	-
	2,842,212	636,968	1,306,082	340,315
(e) Other expenses				
Management and administration expenses	2,920,259	3,257,097	3,275,012	1,896,956
Depreciation of non-mine site assets	768,009	765,445	317,829	12,106
Impairment of plant and equipment	1,317,189	-	-	-
Loss on sale of plant and equipment	242,496	54,838	-	-
Write down of subsidiary loans	-	-	27,382,255	-
	5,247,953	4,077,380	30,975,096	1,909,062

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

2 REVENUE AND EXPENSES (continued)

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
(f) Treasury				
Unrealised loss on gold forward contracts	(23,451,224)	(11,660,250)	-	-
Unrealised gain on close out of foreign exchange forward contracts	-	2,145,983	-	-
Realised gain on close out of foreign exchange forward contracts	1,582,554	-	-	-
Net foreign currency gains/(losses)	5,716,760	(2,343,807)	2,032,944	(2,039,509)
	(16,151,910)	(11,858,074)	2,032,944	(2,039,509)

3 INCOME TAX

The major components of income tax are:

Income statement

Current income tax				
Current income tax charge/(benefit)	-	-	-	-
Deferred income tax				
Deferred tax asset not bought to account as realisation is not considered probable	6,632,248	-	-	-
Relating to origination and reversal of temporary differences	-	(6,632,248)	(202,595)	(26,899)
Relating to recognition of previously unrecognised tax losses	-	-	202,595	26,899
Income tax expense/(benefit) reported in the income statement	6,632,248	(6,632,248)	-	-

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before income tax	(24,230,034)	(30,005,931)	(28,021,245)	(5,706,777)
At the Group's statutory income tax rate of 30% (2005: 30%)	(7,269,010)	(9,001,779)	(8,406,374)	(1,712,033)
Share issue costs	(157,607)	(138,829)	(157,607)	(138,829)
Effect of different rates of tax on overseas income	515,994	562,935	-	-
Deferred tax asset not recognised that was booked in previous years	6,632,248	-	-	-
Provision for non-recoverability of loans	-	-	8,214,677	185,419
Other	114,786	-	-	-
Unrecognised tax losses/deferred tax assets	6,795,837	1,945,425	349,304	1,665,443
Income tax expense/(benefit) reported in the income statement	6,632,248	(6,632,248)	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

3 INCOME TAX (continued)

	Balance Sheet		Income Statement	
	2006	2005	2006	2005
	$	$	$	$
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax assets				
Convertible note interest	213,798	-	(213,798)	-
Deferred expenses	-	5,655	5,655	(5,655)
Leave entitlements	15,696	21,244	5,548	(21,244)
Rehabilitation provision	-	1,091,115	1,091,115	1,091,115
Unrealised losses on gold forward contracts	6,566,343	3,264,870	(3,301,473)	3,264,870
Carried forward losses booked	-	3,861,302	-	(9,403,193)
Unrecognised tax losses/deferred tax assets	(6,795,837)	-	10,657,138	-
Gross deferred income tax assets	-	8,244,186		
Deferred tax liabilities				
Prepayments	(9,905)	(7,326)	2,579	7,326
Property, plant and equipment	9,676	(4,055)	(13,731)	4,055
Capitalised exploration expenditure	(370,238)	(462,799)	(92,561)	462,799
Rehabilitation asset	(791,456)	(986,667)	(195,211)	(986,667)
Unrealised gains on foreign currency forward contracts	-	(600,875)	(600,875)	(600,875)
Foreign exchange on loans	(2,113,284)	(1,042,859)	1,070,425	(419,843)
Other	-	(24,936)	(24,936)	(24,936)
Deferred tax asset netted off against deferred tax liability	3,275,207	1,517,579	(1,757,627)	-
Gross deferred income tax liabilities	-	(1,611,938)		
Deferred tax income			6,632,248	(6,632,248)
PARENT				
Deferred tax assets				
Convertible note interest	213,798	-	(213,798)	-
Deferred expenses	-	5,655	5,655	(5,655)
Leave entitlements	15,696	21,244	5,548	(21,244)
Unrecognised deferred tax assets	(229,494)	(26,899)	-	-
Gross deferred income tax assets	-	-		
Deferred tax liabilities				
Prepayments	(9,905)	(7,326)	2,579	7,326
Property, plant and equipment	9,676	(4,055)	(13,731)	4,055
Capitalised exploration expenditure	(370,238)	(462,799)	(92,561)	462,799
Deferred tax asset netted off against deferred tax liability	370,467	474,180	103,713	(474,180)
Gross deferred income tax liabilities	-	-		
Deferred tax income			(202,595)	(26,899)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

3 INCOME TAX (continued)

Future benefits of tax losses total approximately $10,923,274 (2005: $9,247,391) (Consolidated) and $2,196,280 (2005: $2,011,000) (Parent). These benefits have not been brought to account. The Consolidated and Parent Entity have available capital losses at a tax rate of 30% amounting to $2,861,519 (2005: $2,913,400).

The benefits will only be obtained by the companies if:

i) they continue to comply with the provisions of the Income Tax Legislation relating to the deduction of losses of prior years;
ii) they earn sufficient assessable income to enable the benefits of the deductions to be realised; and
iii) there are no changes in Income Tax Legislation adversely affecting the Company's ability to realise the benefits.

The Company is taxed as a public company. The tax benefits brought to account represent the benefit of tax losses from the operating subsidiary, Dragon Mining Sweden AB, as the losses are expected to be recouped from future operating profits.

Tax consolidation
Effective July 1 2003, for the purpose of income taxation, Dragon Mining NL and its 100% Australian owned subsidiaries formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. The head entity of the tax consolidation group is Dragon Mining NL. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

4 CASH AND CASH EQUIVALENTS

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Cash on hand	500	500	200	500
Cash at bank and short-term deposits	12,626,175	2,496,824	11,345,722	1,393,390
	12,626,675	2,497,324	11,345,922	1,393,890

Cash at bank earns interest at floating rates based on daily deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

As at 30 June 2006, there were no undrawn committed borrowing facilities.

The fair value of cash and cash equivalents is $12,626,675.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

4 CASH AND CASH EQUIVALENTS (continued)

	Consolidated Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
(a) Reconciliation of cash flows from operating loss after income tax				
Operating loss after income tax	(30,861,228)	(23,372,342)	(28,021,245)	(5,706,777)
Non-cash flows in operating loss				
- Depreciation and amortisation	8,039,817	2,074,998	317,829	12,106
- Impairment of plant and equipment	1,317,189	-	-	-
- Exploration expenditure written off	9,383	1,121,185	-	-
- Development expenditure written off	-	13,466,480	-	3,000,000
- Group loans provided for	-	-	27,382,255	-
- Unrealised loss on gold forward contracts	23,451,224	11,660,250	-	-
- Unrealised gain on close out of foreign exchange forward contracts	-	(2,145,983)	-	-
- Realised gain on close out of foreign exchange forward contracts	(1,582,554)	-	-	-
- Net foreign currency (gains)/losses	(5,716,760)	2,343,807	(2,032,944)	2,039,509
- Net loss/(profit) on disposal of property, plant and equipment	234,803	54,838	(2,023)	-
- Net gain on disposal of exploration assets	-	(1,005,415)	-	-
- Investment written off	-	25,122	-	616,062
- Net (profit) on disposal of investment	(176,971)	-	(176,971)	-
- Fair value change on held-for-trading investments	896,096	(650,496)	-	(122,143)
- Tax	6,632,248	(6,632,248)	-	-
- Share option expenses	23,740	-	23,740	-
- Gain recognised on hedge fees	-	(161,498)	-	-
- Movement in minority interest	(1,054)	(1,341)	-	-
Changes in assets and liabilities				
- Increase in receivables	(2,440,953)	(608,502)	-	-
- Increase in interest receivable	-	-	(1,646,318)	(1,152,950)
- Decrease in accrued income	97,364	198,579	-	-
- Increase in unearned income	-	633,335	-	-
- Increase/(decrease) in other debtors	(28,592)	73,070	702	(51,464)
- Increase/(decrease) in prepayments	230,068	(159,260)	(8,598)	(5,584)
- Decrease in inventories	(1,128,686)	(1,450,471)	-	-
- Increase/(decrease) in provisions	(1,015,144)	86,039	(18,492)	20,741
- Increase/(decrease) in trade creditors and accruals	4,265,731	1,728,579	689,022	(80,714)
Net operating cash flows	2,245,721	(2,721,274)	(3,493,043)	(1,431,214)

(b) Financing facilities available At reporting date, the following financing facilities Had been negotiated and were available:				
Total Facilities				
- Bank loans	2,763,349	18,800,594	-	4,886,185
Facilities used at reporting date				
- Bank loans	2,763,349	18,800,594	-	4,886,185
Facilities unused at reporting date				
- Bank loans	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

5 TRADE AND OTHER RECEIVABLES

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
Current	$	$	$	$
Other debtors (i)	2,828,188	1,368,977	-	702
Bullion of hand	981,742	-	-	-
	3,809,930	1,368,977	-	702
Non-current				
Receivables from controlled entities (ii)	-	-	65,259,159	48,851,206
Provision for doubtful debts	-	-	(32,494,285)	(5,112,030)
	-	-	32,764,874	43,739,176

(i) Other debtors are non-interest bearing and generally on 30 day terms.

(ii) For terms and conditions relating to receivables from controlled entities refer to note 23.

6 INVENTORIES

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Work in progress – at cost				
- Ore stockpile	1,192,571	661,510	-	-
- Gold in circuit	844,338	356,228	-	-
Raw materials and stores – at cost	740,634	631,119	-	-
	2,777,543	1,648,857	-	-

7 INVESTMENTS AND OTHER FINANCIAL ASSETS

	Note	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
Current					
At fair value					
Held-for-trading listed shares		1,650,000	1,784,005	-	122,143
Held-for-trading financial assets - unlisted		267,400	979,695	-	-
		1,917,400	2,763,700	-	122,143
Non-current					
At cost					
- Shares in subsidiaries – unlisted		-	-	15,536,851	15,536,851
- Provision for write-down		-	-	(8,116,825)	(8,116,825)
	8	-	-	7,420,026	7,420,026

Held-for-trading financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of the unlisted held-for-trading financial assets has been estimated using valuation techniques based on assumptions that are not supported by observable market process or rates. Management believes the estimated fair values resulting from the valuation techniques recorded in the balance sheet and the related changes in fair values recorded in the income statement are reasonable and the most appropriate at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

8 INVESTMENTS IN SUBSIDIARIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2006 %	Equity Holding 2005 %	Cost of Parent Entity's Investment 2006 $	Cost of Parent Entity's Investment 2005 $
Dragon Resources Limited	Australia	Ord	100	100	5,097,027	5,097,027
Less: Provision for diminution in value					(5,097,027)	(5,097,027)
					-	-
Pyrosmelt NL	Australia	Ord	100	100	-	-
Firegold NL	Australia	Ord	100	100	301	301
Dragon Mining (Ontario) Inc	Canada	Ord	100	100	3,017,838	3,017,838
Dragon Mining (Sweden) AB (formerly Svartliden Guld AB)	Sweden	Ord	80	80	2,843,687	2,843,687
Viking Gold & Prospecting AB	Sweden	Ord	100	100	-	-
Polar Mining Oy	Finland	Ord	100	100	4,577,998	4,577,998
Less: allowance for impairment					(3,019,798)	(3,019,798)
					1,558,200	1,558,200
Kivijärvi OAO	Russia	Ord	84.98	84.98	-	-
Escanor Oy	Finland	Ord	0	100	-	-
					7,420,026	7,420,026

9 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity 2006 $	Consolidated Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Land				
At cost	940,208	873,630	-	33,533
	940,208	873,630	-	33,533
Buildings				
At cost	818,110	734,551	-	-
Less accumulated depreciation	(153,113)	(84,736)	-	-
	664,997	649,815	-	-
Mine properties, plant and equipment				
At cost	24,115,478	21,768,261	65,817	61,696
Less accumulated depreciation	(7,632,950)	(2,408,998)	(57,506)	(48,209)
	16,482,528	19,359,263	8,311	13,487
Total property, plant and equipment	18,087,733	20,882,708	8,311	47,020

Reconciliations
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the financial year:

	Consolidated Entity 2006 $	Consolidated Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Land				
Carrying amount at beginning	873,630	915,072	33,533	33,533
Additions	-	36,798	-	-
Transfers	-	-	(33,533)	-
Net foreign exchange movement	66,578	(78,240)	-	-
Carrying amount at end of year	940,208	873,630	-	33,533

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

9 PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated Entity		Parent Entity	
	2006	**2005**	**2006**	**2005**
Buildings	**$**	**$**	**$**	**$**
Carrying amount at beginning	649,815	891,933	-	-
Additions	31,186	17,221	-	-
Reclassification from development costs	-	159,188	-	-
Disposals	-	(351,537)	-	-
Depreciation	(66,518)	(49,851)	-	-
Net foreign exchange movement	50,514	(17,139)	-	-
Carrying amount at end of year	664,997	649,815	-	-
Mine properties, plant and equipment				
Carrying amount at beginning of year	19,359,263	2,060,670	13,487	21,216
Additions	3,326,136	1,720,395	4,121	4,377
Disposals	(1,104,324)	(32,052)	-	-
Impairment	(1,317,189)	-	-	-
Reclassification from development costs	-	19,535,954	-	-
Depreciation	(5,445,491)	(1,665,430)	(9,297)	(12,106)
Depreciation capitalised to exploration expenditure	-	(131,962)	-	-
Net foreign exchange movement	1,664,133	(2,128,312)	-	-
Carrying amount at end of year	16,482,528	19,359,263	8,311	13,487

Impairment Loss
The impairment loss represents the write down of certain property, plant and equipment to recoverable amount under AASB 136 "*Impairment of Assets*" (refer to note 1 and note 31).

Borrowing Costs
There are no borrowing costs capitalised into the cost of property, plant and equipment held on the balance sheet as at 30 June 2006 (2005: nil).

10 MINERAL EXPLORATION AND DEVELOPMENT COSTS

	Consolidated Entity		Parent Entity	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
Exploration and evaluation				
Exploration expenditure – costs carried forward in respect of areas of interest	-	-	-	-
Balance at beginning of financial year	22,209,773	19,081,176	-	-
Current year expenditure	1,189,148	5,927,879	-	-
Expenditure written off	(9,383)	(1,121,185)	-	-
Sale of exploration assets	-	(869,090)	-	-
Amortisation	(568,737)	-	-	-
Exploration expenditure transferred to development expenditure	(9,298,182)	-	-	-
Net foreign exchange movement	887,571	(809,007)	-	-
Total exploration expenditure	14,410,190	22,209,773	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

10 MINERAL EXPLORATION AND DEVELOPMENT COSTS (continued)

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Development				
Balance at beginning of financial period	8,204,072	21,328,864	1,542,659	4,542,659
Current year expenditure	4,720,759	20,966,188	-	-
Impairment	-	(13,466,480)	-	(3,000,000)
Development expenditure amortised	(1,959,071)	(359,717)	(308,532)	-
Reclassification to property, plant and equipment	-	(19,695,142)	-	-
Exploration costs transferred from exploration and evaluation	9,298,182	-	-	-
Net foreign exchange movement	(335,678)	(569,641)	-	-
Total development expenditure	19,928,264	8,204,072	1,234,127	1,542,659
Total mineral exploration and development expenditure	34,338,454	30,413,845	1,234,127	1,542,659

The costs deferred in respect of exploration and development expenditure is dependent upon successful development and commercial exploration of the respective area of interest.

Impairment Loss
The impairment loss represents the write down of certain mineral exploration and development assets to recoverable amount under AASB 136 "*Impairment of Assets*" (refer to note 1 and note 31).

Borrowing Costs
There are no borrowing costs capitalised into the cost of mineral exploration and development costs during the 30 June 2006 financial year.

11 OTHER ASSETS

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Current				
Prepayments	126,901	218,104	33,017	24,420
Government security	158,725	52,155	-	-
Other assets	13,225	-	-	-
	298,851	270,259	33,017	24,420
Non-current				
Government security	2,434,373	276,844	-	-
Other assets	-	123,498	-	18,076
	2,434,373	400,342	-	18,076

The government security relates to environmental cash bonds that have been deposited with Swedish government authorities.

12 TRADE AND OTHER PAYABLES

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Current				
Trade payables and accruals	6,992,821	3,983,605	809,460	120,311
	6,992,821	3,983,605	809,460	120,311

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

12 TRADE AND OTHER PAYABLES (continued)

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Non-current				
Loans from subsidiaries	-	-	3,677,629	3,677,629
	-	-	3,677,629	3,677,629

Trade payables are non-interest bearing and are normally settled on 30 day terms. For terms and conditions relating to related party loans, refer to note 23.

13 INTEREST-BEARING LOANS AND BORROWINGS

	Maturity	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
Current					
Macquarie Bank corporate facility (i)		-	1,000,000	-	1,000,000
Macquarie Bank project facility (ii)		-	6,300,864	-	-
Other bank loans (iii)	*Aug 10*	250,856	177,966	-	-
		250,856	7,478,830	-	1,000,000
Non-current					
Macquarie Bank corporate facility (i)		-	3,886,185	-	3,886,185
Macquarie Bank project facility (ii)	*Aug 07*	2,763,349	7,613,545	-	-
Other bank loans (iii)	*Aug 10*	546,969	533,898	-	-
Convertible notes (iv)	*Nov 09*	24,827,553	-	24,827,553	-
		28,137,871	12,033,628	24,827,553	3,886,185

(i) This loan was secured by a first ranking fixed and floating charge over all the assets and undertakings of Polar including mortgages over key tenements together with a share mortgage over the Company's shares in Polar, a Guarantee and Indemnity granted by Polar in favour of Macquarie Bank in support of the Facility.

This loan was repaid during the year.

(ii) This refers to the outstanding Svartliden project facility. This loan is secured by a first ranking fixed and floating charge over all the assets and undertakings each of Dragon Mining NL, Dragon Mining (Sweden) AB (formerly Svartliden Guld AB) and Svartliden Gold Project assets together with a registered first ranking mortgage over the Svartliden Gold Project Exploitation Concessions and any other material tenements. Further, there is a secured guarantee from the Company, including a first ranking share mortgage over the Company's shares in Dragon Mining (Sweden) AB, a fixed charge over the Proceeds and the Gold Account.

In addition, this loan is now also secured by a first ranking fixed and floating charge over all the assets and undertakings of Polar including mortgages over key tenements together with a share mortgage over the Company's shares in Polar, a Guarantee and Indemnity granted by Polar in favour of Macquarie Bank in support of the Facility.

This loan which was due to be repaid in full on or before 31 August 2007, was repaid in September 2006.

(iii) This loan was used to purchase certain plant and machinery at Svartliden. This loan is secured over the plant and machinery.

(iv) 23,645,289 convertible notes were issued during the year at $1.05 per note. The notes have a 10% coupon rate and are convertible into ordinary shares in November 2009 on the basis of 6 shares for 1 convertible note. The convertible note is secured by a second ranking (behind Macquarie Bank) deed of fixed and floating security (refer to point (ii) above) but does not include the Finnish assets or any foreign securities held by Dragon Mining NL.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

14 PROVISIONS

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Current				
Employee entitlements	413,752	572,162	31,150	31,373
Non-current				
Employee entitlements	21,172	39,441	21,172	39,441
Rehabilitation	4,012,602	4,851,067	-	-
	4,033,774	4,890,508	21,172	39,441
Number of employees at balance date	75	65	4	4

	Rehabilitation
	$
Balance at 1 July 2005	4,851,067
Arising during the year	-
Utilised	-
Rehabilitation discount adjustment	-
Net foreign exchange movement	436,576
Unused amounts reversed	(1,275,041)
Balance at 30 June 2006	4,012,602

A provision for rehabilitation is recorded in relation to the gold mining operations for the rehabilitation of the disturbed mining area to a state acceptable to various Swedish and Finnish authorities. While rehabilitation is ongoing, final rehabilitation of the disturbed mining area is not expected until the cessation of mining, currently estimated at beyond 2010.

Rehabilitation provisions are estimated based on survey data, external contracted rates and the timing of the current mining schedule. Provisions are discounted using an in-country risk free rate.

Rehabilitation provisions are subject to an inherent amount of uncertainty in both timing and amount and as a result are continuously monitored and revised.

15 OTHER LIABILITIES

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Current				
Other	88,128	52,154	-	-
	88,128	52,154	-	-
Non-current				
Accrued hedge fee income	493,987	397,668	-	-
Other	10,758	9,713	-	-
	504,745	407,381	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

16 CONTRIBUTED EQUITY

	2006	2005	2006	2005
Share Capital	**Number of Shares**		**$**	**$**
Ordinary shares, fully paid	440,393,549	397,767,293	71,676,935	65,789,886
Employee incentive scheme shares	75,000	3,325,000	75	826,256
Less: uncalled capital			-	(822,777)
			75	3,479
			71,677,010	65,793,365

Effective 1 July 1998, the Corporations Legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the parent company does not have authorised capital nor par value in respect of its issued shares.

Ordinary shares have the right to receive dividends as declared and entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

The Company has granted options and partly paid shares to executives to subscribe for the Company's shares. Details of the share option scheme are provided at note 28.

(a) Ordinary shares movements during the year	**2006**	**2005**	**2006**	**2005**
	Number of shares		**$**	**$**
Balance at beginning of year	397,767,293	312,460,131	65,789,886	45,328,153
Shares issued				
At $0.165 per share for cash pursuant to a placement	23,149,999	-	3,819,750	-
At $0.165 per share for cash pursuant to a placement	8,365,146	-	1,380,249	-
At $0.09 per share for exercise of unlisted options	11,111,111	-	1,000,000	-
At $0.0799 per share, transferred from partly paid shares upon conversion to fully paid shares	-	165,000	-	13,200
At $0.189 per share, transferred from partly paid shares upon conversion to fully paid shares	-	250,000	-	47,500
At $0.28 per share for cash pursuant to a placement	-	46,900,000	-	13,132,000
At $0.0799 per share, transferred from partly paid shares upon conversion to fully paid shares	-	165,000	-	13,200
At $0.22 per share for cash pursuant to a placement	-	31,818,180	-	7,000,000
At $0.22 per share for cash pursuant to a placement	-	6,008,982	-	1,322,000
Transaction costs arising from issue for cash pursuant to placement	-	-	(312,950)	(1,066,167)
	440,393,549	397,767,293	71,676,935	65,789,886

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

16 CONTRIBUTED EQUITY (continued)

	2006	2005	2006	2005
	Number of Shares		$	$
(b) Partly paid shares				
Balance at beginning of year	3,325,000	3,455,000	3,479	3,261
Partly paid employee shares				
Ordinary shares issued, partly paid to $0.001 per share (uncalled capital of $0.399 per share)	-	500,000	-	500
Cancelled	(3,250,000)	(50,000)	(3,404)	-
Transferred to ordinary share capital upon full payment	-	(165,000)	-	(16)
Transferred to ordinary share capital upon full payment	-	(250,000)	-	(250)
Transferred to ordinary share capital upon full payment	-	(165,000)	-	(16)
	75,000	3,325,000	75	3,479
	440,468,549	401,092,293	71,677,010	65,793,365

(c) Options	2006	2005
	Number of Options	
Options to subscribe for ordinary shares at an exercise price of $0.09 per share expiring on 20 May 2006	-	11,111,111
Options to subscribe for ordinary shares at an exercise price of $0.20 per share expiring on 4 November 2007	21,250,000	21,250,000
Options to subscribe for ordinary shares at an exercise price of $0.40 per share expiring on 22 October 2009	2,600,000	2,600,000
Options to subscribe for ordinary shares at an exercise price of $0.175 per share	500,000	-
Options on issue at 30 June 2006*	24,350,000	34,961,111

* Mr Cordin has been granted 4,000,000 options with exercise prices between $0.14 and $0.21 and will be issued after shareholder approval.

17 RESERVES

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Foreign currency translation reserve (a)	(1,760,847)	472,523	-	-
Option reserve (b)	23,740	-	23,740	-
	(1,737,107)	472,523	23,740	-
(a) Movements in foreign currency translation reserve				
Balance at the beginning of the year	472,523	-	-	-
Translation of foreign entities balance sheets	(2,233,370)	472,523	-	-
Balance at the end of the year	(1,760,847)	472,523	-	-
(b) Movements in option reserve				
Balance at the beginning of the year	-	-	-	-
Value of options vested	23,740	-	23,740	-
Balance at the end of the year	23,740	-	23,740	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

17 RESERVES (continued)

Nature and Purpose of Reserves

Foreign Currency Translation Reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

Option Reserve
This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to note 28 for further details of these benefits.

18 MINORITY INTEREST IN CONTROLLED ENTITIES

Outside equity interest comprises:	2006 $	2005 $
- Share capital	4,074	4,074
- Accumulated losses	(2,764)	(1,423)
- Share of reserves	81	-
- Current loss for the year	(1,054)	(1,341)
	337	1,310

19 DIVIDENDS PAID OR PROVIDED FOR

There were no dividends paid or provided for during the year.

20 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

AE Daley	Director (non-executive)
PG Cordin	Managing Director – appointed 20 March 2006
TT Järvinen	Director (non-executive)
PL Munachen	Director (non-executive)
CT Ansell	Chairman (non-executive) – resigned 20 March 2006
DJ Searle	Chief Executive Officer – resigned 20 March 2006

(ii) Executives

I Haga	President – Polar Mining Oy - resigned 28 February 2006
MD Naylor	Chief Financial Officer – appointed 22 May 2006
DW Wilkins	Company Secretary
NM Edwards	Chief Geologist
SS Solomons	Nordic General Manager – resigned 10 February 2006
RU Uusitalo	Operations Manager (Polar Mining Oy)
UO Kuronen	Manager Geology (Polar Mining Oy)
KE Marttala	General Manager – Dragon Mining (Sweden) AB – appointed 16 January 2006
F Bowman	General Manager – Dragon Mining (Sweden) AB – resigned 15 November 2005

There were no changes to Directors or key management after reporting date and the date the financial report was authorised for issue.

(b) Compensation of Key Management Personnel

Compensation disclosures relating to individual key management personnel are provided in the Remuneration Report of the Directors' Report. The discussion of the service agreements included in the Remuneration Report is designated as audited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

20 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(i) *Compensation by category*

	Consolidated 2006 $	Consolidated 2005* $	Parent 2006 $	Parent 2005 $
Key Management Personnel				
Short-term	1,455,047	811,541	668,965	404,525
Post-employment	123,669	83,074	38,271	30,600
Other long term benefits	17,928	16,111	17,928	16,111
Termination benefits	50,000	-	50,000	-
Share-based payment	23,740	97,000	23,740	-
	1,670,384	1,007,726	798,904	451,236

(ii) *Compensation of Key Management Personnel for the year ended 30 June 2006 (Consolidated)*

		Short Term		Post Employment	Long Term	Termination Benefits	Equity	
		Salary & Fees $	Non-Monetary Benefits $ (a)	Superannuation $	Other		Share-based Payment $ (b)	Total
Directors								
AE Daley	2006	41,250	-	-	-	-	-	41,250
	2005	8,226	-	-	-	-	-	8,226
PG Cordin	2006	169,617	-	14,437	-	-	-	184,054
	2005	-	-	-	-	-	-	-
PL Munachen	2006	31,750	-	-	-	-	-	31,750
	2005	16,527	-	-	-	-	-	16,527
TT Järvinen	2006	31,750	-	-	-	-	-	31,750
	2005	20,500	-	-	-	-	-	20,500
CT Ansell	2006	37,500	-	3,375	-	-	-	40,875
	2005	45,000	-	4,050	-	-	-	49,050
DJ Searle	2006	127,787	-	9,611	-	50,000	-	187,398
	2005	195,000	-	17,550	-	-	-	212,550
HD Kennedy	2006	-	-	-	-	-	-	-
	2005	8,250	-	-	-	-	-	8,250
Executives								
I Haga	2006	188,285	390	43,305	-	-	-	231,980
	2005	166,560	-	31,729	-	-	-	198,289
MD Naylor	2006	19,391	1,371	1,848	-	-	23,740	46,350
	2005	-	-	-	-	-	-	-
DW Wilkins	2006	108,549	-	-	-	-	-	108,549
	2005	11,022	-	-	-	-	-	11,022
N Edwards	2006	100,000	-	9,000	17,928	-	-	126,928
	2005	100,000	-	9,000	16,111	-	-	125,111
S Solomons	2006	162,454	-	14,428	-	-	-	176,882
	2005	33,613	-	3,025	-	-	-	36,638
R Uusitalo (c)	2006	143,142	12,296	-	-	-	-	155,438
	2005	-	-	-	-	-	-	-
U Kuronen (c)	2006	119,740	390	-	-	-	-	120,130
	2005	-	-	-	-	-	-	-
KE Marttala	2006	68,243	-	27,623	-	-	-	95,866
	2005	-	-	-	-	-	-	-
F Bowman	2006	91,142	-	42	-	-	-	91,184
	2005	206,843	-	17,720	-	-	97,000	321,563
	2006	1,440,600	14,447	123,669	17,928	50,000	23,740	1,670,384
	2005*	811,541	-	83,074	16,111	-	97,000	1,007,726

* Group totals in respect of the financial year ended 2005 are not necessarily the same as disclosed in the 2005 report, as different individuals and different components of remuneration were disclosed in the 2005 financial year.

(a) Non-monetary benefits include, where applicable, the cost to the Company of providing fringe benefits, the fringe benefits tax on those benefits and all other benefits received by the executive.

(b) Details of the terms and conditions of the options are set out in note 28. Fair values have been determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, Dragon Mining's ordinary share price at the date of issue, the expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

(c) R Uusitalo and U Kuronen did not meet the definition of key management personnel, under AASB 124 "Related Party Disclosures," for the 2005 financial year but are key management personnel for 2006.

None of the remuneration above is performance based.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

20 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Holdings of partly paid shares of key management personnel

	Balance at beginning of period 1 July 2005	Granted as remuneration	Partly paid shares fully paid	Forfeited	Balance at end of period 30 June 2006	Vested Total
Directors						
CT Ansell	500,000	-	-	(500,000)	-	-
DJ Searle	2,000,000	-	-	(2,000,000)	-	-
Executives						
F Bowman	500,000	-	-	(500,000)	-	-
Total	3,000,000	-	-	(3,000,000)	-	-

	Balance at beginning of period 1 July 2004	Granted as remuneration	Partly paid shares fully paid	Forfeited	Balance at end of period 30 June 2005	Vested Total
Directors						
CT Ansell	500,000	-	-	-	500,000	500,000
DJ Searle	2,000,000	-	-	-	2,000,000	2,000,000
HD Kennedy	415,000	-	(165,000)	(250,000)	-	-
Executives						
F Bowman	-	500,000	-	-	500,000	500,000
Total	2,915,000	500,000	(165,000)	(250,000)	3,000,000	3,000,000

No other key management personnel held partly paid shares during the 2006 or 2005 financial years. Group totals for 2005 are not the same as disclosed in the 2005 report, as different individuals were disclosed in the 2005 financial year.

(d) Shares issued on exercise of remuneration options (Consolidated)

No key management personnel exercised remuneration options in the financial years 2005 and 2006.

(e) Option holdings of key management personnel

	Balance at beginning of period 1 July 2005	Granted as remuneration	Options exercised	Forfeited	Balance at end of period 30 June 2006	Exercisable	Not Exercisable
Executive							
I Haga**	1,000,000	-	-	-	1,000,000	1,000,000	-
MD Naylor	-	500,000	-	-	500,000	500,000	-
R Uusitalo**	240,000	-	-	-	240,000	240,000	-
U Kuronen**	240,000	-	-	-	240,000	240,000	-
Total*	1,480,000	500,000	-	-	1,980,000	1,980,000	-

* Mr Cordin has been granted 4,000,000 options with exercise prices between $0.14 and $0.21 which will be issued after shareholder approval.
** These options are in the process of being cancelled as certain performance criteria were not met before 30 June 2005.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

20 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(f) Compensation options: granted and vested during the year (Consolidated)

During the financial year options were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. No share options have been granted to the non-executive members of the Board of Directors. The options were issued free of charge and entitle the holder to subscribe for one fully paid ordinary share in the entity. The options vest immediately and are not subject to performance related criteria.

	Vested No.	Granted No.	Grant Date	Terms & Conditions for each Grant: Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	First exercise date	Last exercise date
30 June 2006								
Executive								
MD Naylor	500,000	500,000	22 May 06	0.05	0.175	-	22 May 06	(i)
Total	500,000	500,000						

(i) There is no expiry date on the options, though for valuation purposes they have an expected life of 3.3 years.

(g) Ordinary shareholdings of key management personnel

Shares held in Dragon Mining NL	Balance 1 July 2005	Granted as remuneration	Convert partly paid to	Net change other	Held at the date of resignation	Balance 30 June 2006
(number)	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Directors						
AE Daley	-	-	-	-	-	-
PG Cordin	-	-	-	-	-	-
PL Munachen	-	-	-	-	-	-
TT Järvinen (i)	20,000,000	-	-	-	-	20,000,000
CT Ansell	592,627	-	-	-	(592,627)	-
DJ Searle	1,219,845	-	-	-	(1,219,845)	-
Executives						
I Haga	-	-	-	-	-	-
MD Naylor	-	-	-	-	-	-
DW Wilkins	-	-	-	-	-	-
N Edwards	-	-	-	-	-	-
KE Marttala	-	-	-	-	-	-
Total	21,812,472	-	-	-	(1,812,472)	20,000,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

20 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(g) Ordinary shareholdings of key management personnel (continued)

Shares held in Dragon Mining NL	Balance 1 July 2004	Granted as remuneration	Convert partly paid to	Net change other	Held at the date of resignation/ decease	Balance 30 June 2005
(number)	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Directors						
CT Ansell	569,900	-	-	22,727	-	592,627
DJ Searle	1,130,391	-	-	89,454	-	1,219,845
TT Järvinen(i)	20,000,000	-	-	-	-	20,000,000
PL Munachen	-	-	-	-	-	-
AE Daley (ii)	-	-	-	-	-	-
HD Kennedy	27,495,251	-	165,000	250,000	(27,910,251)	-
Executives						
I Haga	-	-	-	-	-	-
MD Naylor	-	-	-	-	-	-
N Edwards	-	-	-	-	-	-
DW Wilkins	-	-	-	-	-	-
F Bowman	-	-	-	-	-	-
S Solomons	-	-	-	-	-	-
Total	49,195,542	-	165,000	362,181	(27,910,251)	21,812,472

(i) Mr Järvinen is a Director of Outokumpu, which holds 20,000,000 shares in Dragon Mining NL.

(ii) Mr Daley purchased 50,000 convertible notes during the financial year and held 50,000 convertible notes as at 30 June 2006 (2005: nil). No other directors or executives held or purchased convertible notes during the year.

All equity transactions with key management personnel other those arising from remuneration shares have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Group totals for 2005 are not the same as disclosed in the 2005 report, as different individuals were disclosed in the 2005 financial year.

21 REMUNERATION OF AUDITORS

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing accounts	79,181	43,206	79,181	43,206
	79,181	43,206	79,181	43,206
Remuneration of the auditors of the overseas subsidiaries				
- auditing or reviewing accounts	41,485	31,189	-	-
- other services	37,968	13,722	-	-
	79,453	44,911	-	-
	158,634	88,117	79,181	43,206

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

22 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary shareholders (after adding back interest of convertible notes) by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and dilutive convertible notes).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Consolidated Entity	
	2006 **$**	**2005** **$**
Net loss attributable to members of Dragon Mining NL used in calculating basic earnings per share	(30,861,228)	(23,372,342)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	428,272,356	355,575,579

There is no impact of dilutive shares as the Group made a loss for the year, hence any dilution would have the effect of reducing the loss per share.

23 RELATED PARTY TRANSACTIONS

Director Related Transactions
The Directors of Dragon Mining NL at any time during the financial year were:
AE Daley
PG Cordin
PL Munachen
TT Järvinen
CT Ansell
DJ Searle

(a) Golden Valley Services Pty Ltd, a subsidiary company of GVM Metals Limited of which Mr PG Cordin is a Non-Executive Director, rents office premises to the Company. The rental amounted to $16,500 for the year ended 30 June 2006.

(b) Cordin Pty Ltd, an entity run by Mr PG Cordin, received consulting fees for technical and corporate services amounting to $10,120.

(c) Investor Resources Finance Pty Limited, of which Mr AE Daley is a Director, received consulting fees related to the convertible note raising amounting to $43,024 for the year ended 30 June 2006.

(d) Earthsciences Pty Ltd, of which Dr DJ Searle is the Managing Director, received consulting fees related to the convertible note issue amounting to $23,100.

(e) The Company has effected Directors and Officers Liability Insurance.

(f) The Company has an agreement with Sub Sahara Resources NL, of which Mr PL Munachen is a Director, whereby Sub Sahara Resources can potentially acquire up to 70% of Dragon Mining's 66.66% interest in the Zara Gold Project in Eritrea.

Wholly Owned Group
Proceeds were transferred from Dragon Mining NL to Dragon Resources Ltd, Firegold NL, Viking Gold & Prospecting AB, Dragon Mining (Sweden) AB (80% owned), and Polar Mining OY to fund exploration and development activities. Ownership interests in these controlled entities are set out in note 8.

No interest is charged on the loans to Dragon Resources Ltd or Firegold NL and an allowance for non-recoverability of these loans has been raised as it is believed these loans may not be recovered. Interest is charged at 5.0% on the Dragon Mining (Sweden) AB loan giving rise to $1,277,319 (2005: $589,995) interest during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

23 RELATED PARTY TRANSACTIONS (continued)

Interest is charged at 5% on the loan to Polar Mining Oy, payable on first written demand of the lender. Interest of $368,999 (2005: $562,995) has arisen as a result of this loan. The 11 million euro capital loan to Polar Mining Oy is repayable on 31 October 2010 and does not attract interest.

No interest is charged on the loans from Dragon Mining (Ontario) Inc or Pyrosmelt Pty Ltd and the repayment period is unspecified. A summary of the inter-entity loan accounts between Dragon Mining NL and its controlled entities is disclosed in notes 5 and 12.

24 SEGMENT REPORTING

	Australia 2006 $	Sweden 2006 $	Finland 2006 $	Total 2006 $
Revenue				
Sales	-	29,679,285	-	29,679,285
Other revenue	580,670	76,037	18,174	674,881
Total revenue	580,670	29,755,322	18,174	30,354,166
Results				
Pre-tax segment result	(667,461)	(21,810,647)	(1,751,926)	(24,230,034)
Income tax				(6,632,248)
Consolidated entity loss				(30,862,282)
Assets	13,147,236	32,979,252	30,164,471	76,290,959
Liabilities	59,237,209	11,175,181	5,121,030	75,533,420
Acquisition of non-current assets	4,121	3,228,607	6,034,501	9,267,229
Depreciation and amortisation	317,829	6,993,086	728,902	8,039,817
Other significant non-cash expenses				
Unrealised loss on gold forward contracts	-	23,451,224	-	23,451,224
Impairment of plant and equipment	-	1,317,189	-	1,317,189
Fair value change on held-for-trading investments	-	-	896,096	896,096

	Australia 2005 $	Sweden 2005 $	Finland 2005 $	Total 2005 $
Revenue				
Sales	-	3,469,573	-	3,469,573
Other revenue	307,016	118,428	1,725,861	2,151,305
Total revenue	307,016	3,588,001	1,725,861	5,620,878
Results				
Pre-tax segment result	(4,336,672)	(24,029,644)	(1,639,615)	(30,005,931)
Income tax				6,632,248
Consolidated entity loss				(23,373,683)
Assets	1,450,577	44,558,189	24,627,415	70,636,181
Liabilities	5,187,468	35,090,744	2,412,244	42,690,456

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

24 SEGMENT REPORTING (continued)

	Australia 2005 $	Sweden 2005 $	Finland 2005 $	Total 2005 $
Depreciation and amortisation	12,106	1,309,554	753,338	2,074,998
Other significant non-cash expenses				
Development expenditure written off	-	13,466,480	-	13,466,480
Unrealised loss on gold forward contracts	-	11,660,250	-	11,660,250
Exploration expenditure written off	-	-	1,121,185	1,121,185

25 JOINT VENTURES

The Economic Entity has interests in three unincorporated joint ventures. The joint ventures are not separate legal entities. They are contractual arrangements in which participants are earning an interest in a project by expenditure on that project, or share the cost in proportion to the interests in a project.

Weld Range/Range Well (Nickel, Platinum Group and Chrome)
Minara Resources Ltd holds a 75% interest in the Weld Range Project together with Sons of Gwalia (16.25%) and Dragon Resources Ltd (8.75%). Minara will carry all the project costs until the completion of a feasibility study. Platinum Group Metal (PGM) rights on the same Weld Range tenements are retained by Sons of Gwalia (65%) and Dragon Resources Ltd (35%). In addition, Dragon Resources retains a 25% interest and Minara Resources 75% in all mineral rights to a depth of 20m on Mining Lease M51/546 within the Weld Range Project Area.

Zara (Gold)
The Zara Joint Venture project is managed by ASX listed Sub Sahara Resources Ltd ("Sub Sahara"), which has the right to earn up to 70% of Dragon's 66.6% interest in the project.

Sub Sahara advised Dragon Mining during late 2005 that in accordance with the Zara Agreement that they have completed Stage 2 of the earn-in and now hold 51% of Dragon Mining's interest in the Zara Project. Sub Sahara can earn a further 19% of Dragon Mining's interest by producing a Bankable Feasibility Study (BFS) or by having spent US$3.3 million on exploration. If Sub Sahara has not completed a BFS after spending US$3.3 million, Sub Sahara will free carry Dragon Mining to completion of a BFS. Mr Munachen is a Director of Sub Sahara.

Inco Nickel Alliance (Nickel)
Dragon Mining announced in late 2005 the formation of a 3-year nickel alliance in Finland with Inco Ltd of Canada. The alliance will involve project generation work carried out by Dragon Mining's geoscientists. Inco will contribute 50,000 euro to the project generation costs in the first year and then 30,000 euro per year for the next 2 years. Inco can then earn a 50% interest in the identified projects by spending the first US$500,000 of exploration expenditure on each project. Dragon Mining will manage the exploration until the first US$2 million has been spent on each project.

26 EXPENDITURE COMMITMENTS

(a) Exploration commitments
Due to the nature of the consolidated entity's operations in exploring and evaluating areas of interest, it is very difficult to accurately forecast the nature or amount of future expenditure, although it will be necessary to incur expenditure in order to retain present interests in mineral tenements. Expenditure commitments on mineral tenure for the parent entity and consolidated entity can be reduced by selective relinquishment of exploration tenure or by the renegotiation of expenditure commitments. The approximate minimum level of exploration requirements are detailed below.

	Consolidated Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
Within one year	564,905	356,330	-	-
One year or later and no later than five years	657,207	813,986	-	-
	1,222,112	1,170,316	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

26 EXPENDITURE COMMITMENTS (continued)

(b) Operating lease expense commitments
The Group has entered into a commercial lease on certain items of machinery. The lease was terminated during the year at no additional cost to the Company. Future operating lease commitments not provided for in the financial statements and payable are as follow:

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Within one year	-	391,381	-	-
One year or later and no later than five years	-	505,735	-	-
	-	897,116	-	-

(c) Finance lease commitments
The Group has entered into finance leases on certain vehicles and machinery. The leases have terms of renewal and purchase at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease repayments are as follows:

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Within one year	74,211	116,062	-	-
One year or later and no later than five years	70,525	145,301	-	-
Total minimum lease payments	144,736	261,363	-	-
Less amounts representing finance charges	(11,161)	(21,052)	-	-
Present value on minimum lease repayments	133,575	240,311	-	-

The weighted average interest rate for the Group is 5.57% (2005: 4.25%).

(d) Remuneration commitments
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities are as follows:

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Within one year	500,000	-	500,000	-
One year or later and no later than five years	801,475	-	801,475	-
	1,301,475	-	1,301,475	-

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of Directors and executives referred to in note 20 that are not recognised as liabilities and are not included in the Directors or executives' remuneration.

(e) Derivative commitments
Gold forwards
Under the terms of Dragon Mining's gold forward sale contracts, at 30 June 2006 the company is obligated to deliver 104,599 ounces of gold into gold forward sale contracts at a weighted average price of US$402.69 per ounce. Refer to note 29 for more details.

27 CONTINGENT ASSETS AND LIABILITIES

MDM litigation
In the opinion of the Directors, Dragon Mining (Sweden) AB ("DMS") has a contingent asset in the form of a claim for damages against the contractor responsible for construction of the gold processing plant in Sweden (MDM Pty Ltd ("MDM")), including debts due to DMS and the costs of completing the construction following MDM's abandonment of the site in November 2004.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

27 CONTINGENT ASSETS AND LIABILITIES (continued)

MDM was placed in liquidation on 1 February 2006 and the Company has not had any formal notification of MDM's financial affairs, but is aware they will vigorously oppose the application and they have lodged detailed material in the court in South Africa in support of their position. DMS has lodged a claim with MDM's administrators.

MDM has publicly stated that it has commenced an action for damages against DMS but no claim has been received. The Board is of the firm opinion that any such claim will be unsuccessful.

Sale of Pampalo Gold Project

On 14 February 2006 the Company announced the conditional sale of the Pampalo gold project to Kalvinit Oy for 6 million euros and a limited royalty. The sale is subject to the listing of Kalvinit Oy or its affiliate, Endomines AB, on the Swedish stock exchange (NGM) or Kalvinit Oy arranging alternate financing by 30 September 2006. In February the Company received a non-refundable deposit of 600,000 euros.

On 6 June 2006, the Company announced it had signed an Amendment to the Agreement with Kalvinit Oy to extend the date for the completion of the terms of the sale to 30 September 2006. In consideration for the extension of the sale date, a payment of 150,000 euros was received by the Company in July 2006.

Sami Claim

The Svartliden Mine is located in the reindeer-herding area of the Vapsten Sami Community, which has appealed the Mines Inspector's decision concerning financial compensation for infringement on their reindeer-herding rights. The Regional Property Court has decided to award Vapsten a compensation of SEK 480,000 which is approximately 115% more than the amount awarded by the Mines Inspector. The case is still pending and Vapsten has also decided to appeal this decision. The higher Court of Appeal is expected to hear the case in June 2007.

28 EMPLOYEE BENEFITS COMMITMENTS

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
(a) Employee benefit liability				
The aggregate employee benefit liability is comprised of:				
Accrued wages, salaries and on-costs	-	22,863	-	22,863
Provisions (current)	413,752	572,162	31,150	31,373
Provisions (non-current)	21,172	39,441	21,172	39,441
	434,924	634,466	52,322	93,677

(b) Executive share options

Directors, executives and certain members of staff of the consolidated entity hold options over ordinary shares of the Company. Each option entitles the holder to one ordinary share upon exercise. The options were issued for nil consideration and vest immediately. The options cannot be transferred without the Company's prior approval and the Company does not intend to list the options on the ASX. No options provide dividend or voting rights to the holders.

The following share options were on issue in the period:

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
8/12/2004 (1)	2,600,000	8/12/2004	8/12/2004	22/10/2009	$0.400	$0.03
22/05/2006 (2)	500,000	22/05/2006	22/05/2006	n/a	$0.175	$0.05
	3,100,000					
Options forfeited during the year	-					
Options balance at end of year	3,100,000					

(1) These were issued to Polar Mining Oy executives.
(2) These options were issued to Mr MD Naylor.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

28 EMPLOYEE BENEFITS COMMITMENTS (continued)

i) Options granted during the financial year
The weighted average fair value of the share options granted during the financial year is $0.05. (2005: $0.03). The fair value of the options were priced using the Black & Scholes option pricing model which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the Dragon Mining NL ordinary share price at the date of issue, the expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The expected life used in the model has been based on the assumption that employees remain with the Company for the duration of the exercise period and exercise the options when financially optimal. This is not necessarily indicative of exercise patterns that may occur.

Due to the lack of exchange traded data for option prices of Dragon Mining NL and many other gold mining companies of similar size, historical volatility has been used for the purposes of the valuation. As a result it reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the outcome.

Dividend yield is assumed to be nil on the basis that no dividends have been declared for the 2006 financial year due to the large ongoing capital commitment.

The following table gives the assumptions made in determining the fair value of options granted in the financial year:

Grant date	Dividend yield	Expected volatility	Risk free interest rate	Expected life of option	Option exercise price	Share price at grant date
22/05/2006	0%	50%	5.5%	3.3 years	$0.175	$0.14

The options above do not have an expiry date and the expected life of the option is based on the term of the executive's employment contract.

The following table reconciles the outstanding share options granted at the beginning and the end of the financial year:

WAEP = weighted average exercise price

	2006		2005	
	No.	**WAEP**	**No.**	**WAEP**
Outstanding at start of year	2,600,000	$0.40	-	-
Granted in year	500,000	$0.175	2,600,000	$0.40
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Balance at end of the year	3,100,000	$0.29	2,600,000	$0.40
Exercisable at the end of the year	3,100,000	$0.29	2,600,000	$0.40

ii) Balance at end of financial year
The share options at the end of the financial year had an exercise price of between $0.175 and $0.40 and a weighted average remaining life of 3 years.

(c) Employee Share Incentive Scheme
An employee share scheme was established where Dragon Mining NL may, at the discretion of Directors, grant partly paid ordinary shares of Dragon Mining NL to Directors, executives, and certain members of staff of the consolidated entity. The shares, issued at least at the market rate on date of grant, require $0.001 to be paid with the remainder to be paid within five years. The partly paid shares cannot be transferred and are not quoted on the ASX. There are currently no Directors and one staff member eligible for this scheme.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

28 EMPLOYEE BENEFITS COMMITMENTS (continued)

(c) Employee Share Incentive Scheme (continued)
Information with respect to the number of shares issued under the employee share incentive scheme is as follows:

	2006		2005	
	Number of partly paid shares	**Weighted Average price**	**Number of partly paid shares**	**Weighted Average price**
Balance at beginning of year	3,325,000	0.23	3,455,000	0.19
- granted	-	-	500,000	0.40
- cancelled	(3,250,000)	0.19	(50,000)	0.08
- converted to fully paid shares	-	-	(580,000)	0.13
Balance at end of year	75,000	0.40	3,325,000	0.23

29 FINANCIAL INSTRUMENTS

(a) Financial Risk Management Policies and Objectives
Financial exposures arise in the normal course of the consolidated entity's business operations, including commodity price risk, foreign exchange risk, liquidity risk and credit risk associated with trade and financial counterparties. The policy for managing each of these risks is regularly reviewed and agreed by the Board.

The Group's principal financial instruments, other than derivatives, are cash and short term deposits, convertible notes and loans. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The consolidated entity also has a risk management programme to manage its financial exposures that includes, but is not limited to, the use of derivative products, principally forward gold sales contracts. The purpose is to manage the exposure to movements in the US$ gold price. The Company does not enter into financial instruments, including derivative financial instruments for trade or speculative purposes.

(b) Net fair values
The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 1, with the exception of the finance lease liability. The fair value of the finance lease liability is $133,575 (2005: $240,311).

(c) Credit risk
The consolidated entity's operations and its access to commodity and currency forward sales transactions create credit risk.

The consolidated entity has in place policies for the management of credit exposures which include Board approval of all counterparties. The policies establish limits and methodology for measuring and reporting credit exposures to financial counterparties.

The consolidated entity is not materially exposed to any individual overseas country or any individual customer. The consolidated entity's resource operations are based in Sweden and Finland, which is considered to have minimal sovereign risk.

With respect to credit risk arising from the other financial assets of the consolidated entity, which comprise cash and cash equivalents, held-for-trading financial assts and certain derivative instruments, the consolidated entity's exposure to credit risk arises from default of the counterparty, with the maximum exposure equal to the carrying amounts of these instruments.

Since the consolidated entity trades only with recognised third parties, there is no requirement for collateral.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

29 FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk

The entity's exposure to interest rate risk and the effective weighted average interest rate of its financial assets and liabilities is set out below:

30 June 2006	**Maturing**						**Total**	**Weighted Average Effective Interest Rate**
CONSOLIDATED	**< 1 year**	**>1 to <2 Years**	**>2 to <3 Years**	**>3 to <4 Years**	**>4 to <5 Years**	**>5 Years**		**%**
Financial Assets								
Fixed Rate								
Term deposits	10,241,363	-	-	-	-	-	10,241,363	*5.6%*
Weighted Average effective interest rate	*5.6%*	-	-	-	-	-		
Floating Rate								
Cash	2,385,312	-	-	-	-	-	2,385,312	*3.8%*
Government Bonds	158,725	94,827	-	-	-	2,339,546	2,593,098	*1.2%*
Weighted Average effective interest rate	*3.8%*	*1.2%*	-	-	-	*1.2%*		
Financial Liabilities								
Fixed Rate								
Convertible notes	-	-	-	24,827,553	-	-	24,827,553	*10.0%*
Finance lease liability	74,211	70,525	-	-	-	-	144,736	*5.6%*
Weighted Average effective interest rate	*5.6%*	*5.6%*	-	*10.0%*	-	-		
Floating Rate								
Bank and other loans	250,856	3,017,049	221,094	58,067	14,109	-	3,561,175	*6.6%*
Weighted Average effective interest rate	*4.5%*	*7.0%*	*4.5%*	*4.7%*	*5.4%*	-		

30 June 2006	**Maturing**						**Total**	**Weighted Average Effective Interest Rate**
PARENT	**< 1 year**	**>1 to <2 Years**	**>2 to <3 Years**	**>3 to <4 Years**	**>4 to <5 Years**	**>5 Years**		**%**
Financial Assets								
Fixed Rate								
Term deposits	10,241,363	-	-	-	-	-	10,241,363	*5.6%*
Group loans	-	-	-	-	-	33,869,087	33,869,087	*5.0%*
Weighted Average effective interest rate	*5.6%*	-	-	-	-	*5.0%*		
Floating Rate								
Cash	1,104,559	-	-	-	-	-	1,104,559	*4.7%*
Weighted Average effective interest rate	*4.7%*	-	-	-	-	-		
Financial Liabilities								
Fixed Rate								
Convertible notes	-	-	-	24,827,553	-	-	24,827,553	*10.0%*
Weighted Average effective interest rate	-	-	-	*10.0%*	-	-		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

29 FINANCIAL INSTRUMENTS (continued)

d) Interest rate risk (continued)

30 June 2005	**Maturing**						**Total**	**Weighted Average Effective Interest Rate**
CONSOLIDATED	**< 1 year**	**>1 to <2 Years**	**>2 to <3 Years**	**>3 to <4 Years**	**>4 to <5 Years**	**>5 Years**		**%**
Financial Assets								
Fixed Rate								
Term deposits	40,000	-	-	-	-	-	40,000	*5.4%*
Weighted Average effective interest rate	*5.4%*	-	-	-	-	-		
Floating Rate								
Cash	2,457,324	-	-	-	-	-	2,457,324	*3.3%*
Government Bonds	52,155	52,155	135,040	-	-	89,649	328,999	*1.5%*
Weighted Average effective interest rate	*3.3%*	*1.5%*	*1.5%*	-	-	*1.5%*		
Financial Liabilities								
Fixed Rate								
Finance lease liability	116,062	145,301	-	-	-	-	261,363	*4.6%*
Weighted Average effective interest rate	*4.6%*	*4.6%*						
Floating Rate								
Bank and other loans	7,478,830	11,677,696	177,966	177,966	-	-	19,512,458	*4.9%*
Weighted Average effective interest rate	*4.5%*	*5.1%*	*4.5%*	*4.5%*	-	-		

30 June 2005	**Maturing**						**Total**	**Weighted Average Effective Interest Rate**
PARENT	**< 1 year**	**>1 to <2 Years**	**>2 to <3 Years**	**>3 to <4 Years**	**>4 to <5 Years**	**>5 Years**		**%**
Financial Assets								
Fixed Rate								
Term deposits	40,000	-	-	-	-	-	40,000	*5.4%*
Group loans	-	-	-	-	-	32,633,920	32,633,920	*5.0%*
Weighted Average effective interest rate	*5.4%*	-	-	-	-	*5.0%*		
Floating Rate								
Cash	1,353,890	-	-	-	-	-	1,353,890	*4.1%*
Weighted Average effective interest rate	*4.1%*	-	-	-	-	-		
Financial Liabilities								
Floating Rate								
Bank and other loans	1,000,000	3,886,185	-	-	-	-	4,886,185	*7.1%*
Weighted Average effective interest rate	*7.1%*	*7.1%*	-	-	-	-		

e) Foreign exchange risk

The consolidated entity's forward foreign exchange contracts were closed out in June 2006.

The following tables summarise the US dollar (USD) value of forward foreign exchange contracts for the previous year. Foreign currency amounts are translated at rates current at the reporting date. The "sell" amount represents the Swedish Krona (SEK) equivalent of commitments to sell US dollars.

Dragon entered into forward foreign exchange contracts originally designed as a hedge by purchasing SEK through selling USD to address the mismatch of operating costs of the Svartliden Gold Project in SEK and revenue from gold sales in USD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

29 FINANCIAL INSTRUMENTS (continued)

e) Foreign exchange risk (continued)

This arrangement does not meet the strict definition of a hedge under AIFRS and hence the fair value movements of the forward contract are booked in the income statement. The terms of the agreements are shown in the tables outlined below.

	30 June 2005		
	Forward Exchange Rate	**Sell US$'000**	**Buy SEK'000**
3 months or less	7.8787	2,131	16,786
Over 3 months to 12 months	7.8787	7,250	57,121
Over 12 months to 24 months	7.8787	7,950	62,636
Over 24 months to 36 months	7.8787	9,080	71,539
Over 36 months to 48 months	7.8787	9,590	75,557
	7.8787	36,001	283,639

The following table summarises the deferred unrealised gains and losses on forward foreign exchange contracts entered as hedges of future operating costs in Swedish Krona against US dollar income for the Svartliden project, showing the periods in which they were expected to be recognised as income or expense.

	30 June 2005	
	Gains/(Losses) US$	**Gains/(Losses) AU$**
3 months or less	27,674	36,328
Over 3 months to 12 months	168,802	221,583
Over 12 months to 24 months	320,756	421,050
Over 24 months to 36 months	502,677	659,854
Over 36 months to 48 months	614,900	807,168
	1,634,809	2,145,983

f) Commodity price risk

The consolidated entity enters into forward gold agreements to hedge a proportion of anticipated sales of gold. The following tables summarise the US dollar gold hedging facility held with Macquarie Bank Limited ("MBL"). Gold amounts are translated at rates current at the reporting date.

	30 June 2006		30 June 2005	
	Volume Ounces	**Forward Price US$**	**Volume Ounces**	**Forward Price US$**
3 months or less	7,750	402.25	12,951	402.25
Over 3 months to 12 months	22,750	402.25	28,500	402.25
Over 12 months to 24 months	35,250	402.25	30,500	402.25
Over 24 months to 36 months	37,212	402.25	35,250	402.25
Over 36 months to 48 months	1,637	430.10	37,212	402.25
	104,599		144,413	

The security for this facility consists of:

- a first ranking fixed and floating charge over all the assets and undertakings each of Dragon Mining NL, Dragon Mining (Sweden) AB (formerly Svartliden Guld AB) and Svartliden Gold Project assets together with a registered first ranking mortgage over the Svartliden Gold Project Exploitation Concessions and any other material tenements.
- a secured guarantee from Dragon Mining, including a first ranking share mortgage over Dragon Mining's shares in Dragon Mining (Sweden) AB, a fixed charge over the proceeds and the gold account.
- a first ranking fixed and floating charge over all the assets and undertakings of Polar including mortgages over key tenements together with a share mortgage over Dragon Mining's shares in Polar, a Guarantee and Indemnity granted by Polar in favour of MBL in support of the Facility.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

29 FINANCIAL INSTRUMENTS (continued)

f) Commodity price risk (continued)
Prices for the consolidated entity's primary commodity products (bullion) are determined on international markets and quoted in US dollars. Though these gold forward contracts do not meet the strict criteria of an effective hedge under AIFRS, they are matched with future metal production or revenues. The forward sales programme is managed in accordance with policies approved by the Board. Performance under these policies is regularly reported to Board.

The number of ounces sold forward represents 53% (2005: 46%) of current reserves.

The following table summarises the unrealised gains and losses on forward gold sales entered as hedges of future sales, showing the periods in which they are expected to be realised:

	30 June 2006	
	Gains/(Losses)	**Gains/(Losses)**
	US$	**AU$**
3 months or less	(1,672,094)	(2,290,226)
Over 3 months to 12 months	(5,147,885)	(7,050,931)
Over 12 months to 24 months	(8,641,697)	(11,836,320)
Over 24 months to 36 months	(9,763,529)	(13,372,865)
Over 36 months to 48 months	(409,682)	(561,131)
	(25,634,887)	(35,111,473)

	30 June 2005	
	Gains/(Losses)	**Gains/(Losses)**
	US$	**AU$**
3 months or less	(474,210)	(622,487)
Over 3 months to 12 months	(1,243,451)	(1,632,253)
Over 12 months to 24 months	(1,710,580)	(2,245,445)
Over 24 months to 36 months	(2,460,111)	(3,229,339)
Over 36 months to 48 months	(2,994,427)	(3,930,726)
	(8,882,779)	(11,660,250)

At 30 June 2006, the gold price was US $613.10/oz (2005: US $435.63/oz).

g) Liquidity Risk
The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible notes and finance leases.

30 SIGNIFICANT EVENTS AFTER YEAR END

In accordance with the terms of the Amended Sale Agreement for the Pampalo Gold Project, Kalvinit Oy (Endomines AB) has advised the further extension of one month will be required to enable the completion of a private equity raising. An additional payment of 50,000 euros will be made on or before the 30 September 2006.

No other circumstances or events have arisen subsequent to the end of the financial year that have had, or are likely to have, a material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

31 IMPAIRMENT

The following are non-current assets that are subject to impairment testing as required under AASB 136 *Impairment of Assets* for the consolidated entity.

(a) Carrying amount of investment in controlled entities

	Consolidated Entity		Parent Entity	
Non-current	**2006 $**	**2005 $**	**2006 $**	**2005 $**
Receivables from controlled entities	-	-	65,259,159	48,851,206
Provision for doubtful debts	-	-	(32,494,285)	(5,112,030)
Total non-current receivables	-	-	32,764,874	43,739,176

(b) Development

The recoverable amount of the Svartliden gold mine cash generating units has been determined based on a value in use calculation.

To calculate this, certain estimates and assumptions are required to be made including:

Estimate/Assumption	**Basis – 2005 year**
Future cash flows	Life of Mine Plan
Future realised gold price	Long term realised gold price of US $450 per ounce
Discount rate	Industry Weighted Average Cost of Capital (WACC) of 10% real pre-tax.
Economically recoverable ore reserves	Ore reserves and mineral resource estimates in accordance with Australasian Code for Reporting of Exploration Results Mineral Resources and Ore Reserves as revised June 2005.

The recoverable amount testing in 2005 was triggered by the cost overrun associated with the development and construction of the Svartliden gold mine.

The carrying value of Mining Assets and Plant and Equipment are disclosed in note 9 and 10.

(c) Property, Plant and Equipment

Property, plant and equipment was written down due to the sale of certain equipment (which occurred after year end) at a price which was substantially lower than the book value.

32 TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian Generally Accepted Accounting Practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 July 2005 and the significant accounting policies meeting those requirements are described in note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS.*

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 June 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

32 TRANSITION TO AIFRS (continued)

Exemptions applied
AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

(i) Exemption from requirement to expense share-based payment transactions

The consolidated entity has adopted the share-based payments exemption and has applied AASB 2 "Share-Based Payments" only to equity instruments granted after 7 November 2002 that had not vested before 1 January 2005.

(ii) Exemption from applying AASB 3 "Business Combinations" prior to transition date
The consolidated entity has adopted the Business Combinations exemption and has not restated business combinations prior to 1 July 2004.

Explanation of material adjustments to the cash flow statement
There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Notes	Consolidated		Parent	
		1 July 2004	30 June 2005	1 July 2004	30 June 2005
		$	$	$	$
Total equity under previous AGAAP		**31,704,779**	**37,638,636**	**30,797,999**	**45,431,030**
Adjustments to equity:					
Recognition of fair value of derivatives	(a)	(1,428,907)	(9,514,267)	-	-
Recognition of rehabilitation asset (net)	(b)	3,610,937	3,523,812	-	-
Recognition of provision for rehabilitation (net)	(c)	(3,501,875)	(3,724,498)	-	-
Recognition of other financial assets	(e)	-	650,496	-	122,143
Tax effect of the above adjustments	(f)	-	2,773,832	-	-
Foreign exchange	(d)	-	(3,868,965)	-	-
		30,384,934	27,479,046	30,797,999	45,533,173
Adjustments to other reserves:					
Foreign currency translation reserve	(d)	-	472,523	-	-
		30,384,934	27,951,569	-	45,533,173
Outside equity adjustment		-	(5,844)	-	-
Total equity under AIFRS		30,384,934	27,945,725	30,797,999	45,533,173

Note: The previous AGAAP comparative numbers have been translated at exchange rates applicable at 1 July 2004 the deemed transition date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

32 TRANSITION TO AIFRS (continued)

(ii) Reconciliation of loss reported under AGAAP to that under AIFRS for the year ended 30 June 2005

CONSOLIDATED	Notes	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
Continuing Operations				
Revenue from gold sales		3,469,573	-	3,469,573
Cost of sales	(b),(c)	(4,254,982)	(211,740)	(4,466,722)
Gross Loss		(785,409)	(211,740)	(997,149)
Other income	(d),(e)	3,220,699	(1,069,394)	2,151,305
Exploration expenditure written off		(1,121,185)	-	(1,121,185)
Development expenditure written off		(13,466,480)	-	(13,466,480)
Other expenses		(4,077,380)	-	(4,077,380)
Loss from continuing operations before treasury, tax and finance costs		(16,229,755)	(1,281,134)	(17,510,889)
Finance costs	(c)	(533,116)	(103,852)	(636,968)
Loss before treasury and tax		(16,762,871)	(1,384,986)	(18,147,857)
Treasury – unrealised losses	(a),(d)	-	(11,858,074)	(11,858,074)
Loss before tax		(16,762,871)	(13,243,060)	(30,005,931)
Income tax benefit	(f)	3,858,416	2,773,832	6,632,248
Loss from continuing operations after income tax		(12,904,455)	(10,469,228)	(23,373,683)
Net loss attributable to outside equity interests		(4,503)	5,844	1,341
Loss attributable to members of Dragon Mining NL		(12,908,958)	(10,463,384)	(23,372,342)

(ii) Reconciliation of loss reported under AGAAP to that under AIFRS for the year ended 30 June 2005 (continued)

PARENT	Notes	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
Continuing Operations				
Revenue from gold sales		-	-	-
Cost of sales		-	-	-
Gross Loss		-	-	-
Other income	(e)	1,459,966	122,143	1,582,109
Exploration expenditure written off		-	-	-
Development expenditure written off		(3,000,000)	-	(3,000,000)
Other expenses		(1,909,062)	-	(1,909,062)
Loss from continuing operations before treasury, tax and finance costs		(3,449,096)	122,143	(3,326,953)
Finance costs		(340,315)	-	(340,315)
Loss before treasury and tax		(3,789,411)	122,143	(3,667,268)
Treasury – unrealised losses		(2,039,509)	-	(2,039,509)
Loss before tax		(5,828,920)	122,143	(5,706,777)
Income tax benefit		-	-	-
Loss from continuing operations after income tax		(5,828,920)	122,143	(5,706,777)
Net loss attributable to outside equity interests		-	-	-
Net profit/(loss) attributable to members of Dragon Mining NL		(5,828,920)	122,143	(5,706,777)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

32 TRANSITION TO AIFRS (continued)

(iii) Impact of adopting AIFRS

Outlined below are the areas impacted upon adoption of AIFRS, including the financial impact on equity and profit. The narrative for the impact of adopting AIFRS is for the consolidated entity unless otherwise stated.

Reference	Item	AGAAP	AIFRS	Impact
(a)	Derivative financial instruments	*Foreign exchange forward contracts* Hedge accounting was achieved under previous AGAAP, therefore the unrealised gains and losses on the mark to market of foreign exchange forward contracts are recognised in the Statement of Financial Position. *Gold forward contracts* Hedge accounting was achieved under previous AGAAP and therefore the unrealised gains and losses on the mark to market of the gold forward contract are not recognised in the Statement of Financial Position or Performance.	*Foreign exchange forward contracts* Due to the more stringent requirements of AASB 132 and 139, hedge accounting was not satisfied for the consolidated entity. Therefore the mark to market of foreign exchange forward contracts is recognised in the income statement. *Gold forward contracts* Due to the more stringent requirements of AASB 132 and 139, hedge accounting was not satisfied for the consolidated entity. Therefore the mark to market of gold forward contracts is recognised in the income statement.	*Equity at transition:* Net increase to derivative financial instrument liabilities and a decrease to retained earnings of $1,428,907. *Equity at 30 June 2005:* Net increase to derivative financial instrument liabilities and a decrease to retained earnings of $9,514,267. *Loss for 30 June 2005:* Increase in loss of $9,514,267.
(b)	Mineral exploration & development	Under previous AGAAP, the cost of dismantling and removing an asset and restoring the site in which it is located is not included in the cost of property, plant and equipment.	Under AASB 116 *Property, Plant and Equipment*, the cost of these assets includes the initial estimate of the costs of dismantling and removing the item and restoring the site in which it is located. This addition to the cost base of the asset is charged to the income statement based on the depreciation rates of the asset.	*Equity at transition:* Increase to mineral exploration and development and increase to retained earnings of $3,610,937. *Equity at 30 June 2005*: Increase to mineral exploration and development and increase to retained earnings of $3,523,812. *Loss for 30 June 2005:* Increase to loss due to additional depreciation of $87,125.
(c)	Provisions	Under previous AGAAP, the rehabilitation provision that is required at the cessation of a particular mine-site is recognised gradually over the mines life of production.	Under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, the rehabilitation provision should be measured at the best estimate of the expenditure required to settle the present obligation. In addition the provision is accreted periodically as the discounting of the liability unwinds. The unwinding of the discount is recorded as a finance cost.	*Equity at transition:* Increase to rehabilitation provision and decrease to retained earnings of $3,501,875. *Equity at 30 June 2005:* Increase to rehabilitation provision and decrease to retained earnings of $3,724,498. *Loss for 30 June 2005:* Increase to loss of $228,467. $103,852 of this amount relates to finance costs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (continued)

32 TRANSITION TO AIFRS (continued)

(iii) Impact of adopting AIFRS (continued)

Reference	Item	AGAAP	AIFRS	Impact
(d)	Exchange rate differences	Exchange differences arising on translation of the assets and liabilities of a self-sustaining operation are recognised directly in the foreign currency translation reserve until disposal of the operation, when they are transferred to retained earnings.	AASB 121 *The Effects of Changes in Foreign Exchange Rates* requires each entity to determine its functional currency and maintain its books and records in this currency. The assets and liabilities of foreign operations (the concept of self sustaining operation does not exist) are translated from the entity's functional currency to the consolidated entity's presentation currency at exchange rates as at reporting date.	*Equity at transition:* No effect. *Equity at 30 June 2005:* Decrease in retained earnings of $3,868,965 and increase to foreign currency translation reserve of $472,523. *Loss for 30 June 2005:* Increase to loss of $3,868,965.
(e)	Other financial assets	Listed and unlisted securities were held at lower of cost and net realisable value and classified as other financial assets.	Under AASB 139, these are classified as held-for-trading investments and carried at fair value, with any gains or losses recognised in profit and loss.	*Equity at transition:* No effect. *Equity at 30 June 2005:* Increase in other financial assets and increase to retained earnings of $650,495. *Loss for 30 June 2005:* Decrease to loss of $650,496. **Parent** *Equity at transition:* No effect. *Equity at 30 June 2005:* Increase in other financial assets and increase to retained earnings of $122,143. *Loss for 30 June 2005:* Decrease to loss of $122,143.
(f)	Deferred tax assets and liabilities	Deferred tax liabilities and assets were determined under the income statement approach.	AASB 112 *Income taxes* requires the balance sheet method to be used, which recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base.	*Equity at transition:* No effect. *Equity at 30 June 2005:* Increase in retained earnings and deferred tax assets of $2,773,832. *Loss for 30 June 2005:* Decrease to loss of $2,773,832.

STANTON PARTNERS

1 HAVELOCK STREET
WEST PERTH 6005
WESTERN AUSTRALIA

TELEPHONE: (08) 9481 3188

Facsimile: (08) 9321 1204

e-mail: australia@stanton.com.au

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF DRAGON MINING NL

SCOPE

The financial report and directors' responsibility
The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the director's declaration for Dragon Mining NL (the Company) and the consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during the year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

AUDIT OPINION

In our opinion, the financial report of Dragon Mining NL is in accordance with:

a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

STANTON PARTNERS

Stanton Partners

J P Van Dieren
Partner

Perth, Western Australia
22 September 2006

STANTON PARTNERS

1 HAVELOCK STREET
WEST PERTH 6005
WESTERN AUSTRALIA

TELEPHONE: (08) 9481 3188

Facsimile: (08) 9321 1204

e-mail: australia@stanton.com.au

22 September 2006

Board of Directors
Dragon Mining NL
Level 1
173 Mounts Bay Road
PERTH WA 6000

Dear Sirs

RE: DRAGON MINING NL

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Dragon Mining NL.

As Audit Partner for the audit of the financial statements of Dragon Mining NL for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully
STANTON PARTNERS

John Van Dieren
Partner